

**THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
(Baltimore Division)**

In re:

**FRANK'S NURSERY & CRAFTS, INC., et
al.**

Debtors.

Case Nos. 01-52415 through
02-52416-JS
(Chapter 11)
(Jointly Administered)

* * * * *

March 13, 2002

**DISCLOSURE STATEMENT FOR
DEBTORS' FIRST AMENDED JOINT
PLAN OF REORGANIZATION**

IMPORTANT DATES

Date by which Objections to Confirmation of the Plan Must be Filed and Served:	April 19, 2002 at 5:00 p.m. (EDST)
Date by which Ballots Must be Received:	April 19, 2002 at 5:00 p.m. (EDST)
Date by which Class 7 Creditors Must Elect Lump Sum Cash Payment Option:	April 19, 2002 at 5:00 p.m. (EDST)
Hearing on Confirmation of the Plan	May 1, 2002 at 10:00 a.m. (EDST)

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PRELIMINARY NOTES

FRANK'S NURSERY & CRAFTS, INC. ("FRANK'S") AND FNC HOLDINGS, INC. ("FNC", AND TOGETHER WITH FRANK'S, THE "DEBTORS") FILED FOR CHAPTER 11 PROTECTION ON FEBRUARY 19, 2001. ANNEXED AS APPENDIX 1 TO THIS DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") IS THE DEBTORS' PROPOSED FIRST AMENDED JOINT PLAN OF REORGANIZATION (THE "PLAN"). THE PLAN PROVIDES THE PROPOSED METHOD FOR THE DEBTORS TO EXIT CHAPTER 11 AND THE DISTRIBUTIONS CREDITORS AND SHAREHOLDERS WOULD RECEIVE IN THE DEBTORS' CHAPTER 11 CASES.

CREDITORS OF THE DEBTORS GENERALLY ARE ENTITLED TO VOTE ON THE PLAN. THIS DISCLOSURE STATEMENT IS BEING SENT TO YOU TO PROVIDE THE INFORMATION NECESSARY FOR YOU TO MAKE AN INFORMED VOTE ON WHETHER TO ACCEPT OR REJECT THE PLAN. THE NEXT FEW PAGES OF THIS DISCLOSURE STATEMENT INCLUDE A SUMMARY OF THE PLAN, INCLUDING PROPOSED DISTRIBUTIONS TO CREDITORS UNDER THE PLAN. NONETHELESS, ALL CREDITORS ARE ENCOURAGED TO READ THE ENTIRE DISCLOSURE STATEMENT BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

ALSO, ALL GENERAL UNSECURED CREDITORS SHOULD REVIEW THE DISCUSSION OF THE LUMP SUM PAYMENT ELECTION AVAILABLE TO THEM UNDER THE PLAN. EXERCISING THAT ELECTION BY MARKING THE APPROPRIATE BOX ON YOUR BALLOT WOULD RESULT IN A SINGLE PAYMENT OF 10¢ ON EACH DOLLAR OF ALLOWED CLASS 7 CLAIM AGAINST THE DEBTORS. ALL CREDITORS WITH ALLOWED CLAIMS OF \$10,000 OR LESS (OTHER THAN BONDHOLDERS) WILL BE DEEMED TO HAVE MADE THE LUMP SUM ELECTION.

THE DEBTORS AND THE OFFICIAL CREDITORS' COMMITTEE BOTH SUPPORT THE PLAN AND URGE YOU TO VOTE TO ACCEPT THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS THE ONLY INFORMATION AND REPRESENTATIONS APPROVED FOR USE IN SUCH SOLICITATION. NO PERSON MAY PROVIDE ANY OTHER INFORMATION OR REPRESENTATIONS REGARDING THE PLAN IN CONNECTION WITH SUCH SOLICITATION UNLESS AUTHORIZED TO DO SO BY THE BANKRUPTCY COURT.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE SOLELY AS OF THE DATE HEREOF. DELIVERY OF THIS DISCLOSURE STATEMENT DOES NOT IMPLY THAT THE

**INFORMATION CONTAINED HEREIN WILL BE CORRECT AT ANY
SUBSEQUENT TIME.**

**THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN
ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE, NOT
FEDERAL OR STATE SECURITIES LAWS OR OTHER NONBANKRUPTCY
LAW. PERSONS OR ENTITIES HOLDING, TRADING IN OR OTHERWISE
PURCHASING, SELLING, OR TRANSFERRING CLAIMS AGAINST THE
DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT IN LIGHT
OF THE PURPOSE FOR WHICH IT WAS PREPARED. THE SECURITIES
AND EXCHANGE COMMISSION HAS NOT APPROVED, DISAPPROVED, OR
PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS
CONTAINED IN THIS DISCLOSURE STATEMENT.**

**THIS DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED
TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER
LEGAL EFFECTS OF THE PLAN UPON HOLDERS OF CLAIMS AGAINST
THE DEBTORS. THIS DISCLOSURE STATEMENT SHALL BE CONSIDERED
TO BE A SETTLEMENT DOCUMENT PURSUANT TO FEDERAL RULE OF
EVIDENCE 408.**

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ARTICLE I.

INTRODUCTION

Frank's Nursery & Crafts, Inc. ("Frank's") and FNC Holdings, Inc. ("FNC," and together with Frank's, the "Debtors") filed chapter 11 petitions on February 19, 2001 with the United States Bankruptcy Court for the District of Maryland, Baltimore Division (the "Bankruptcy Court"). On February 11, 2002, the Debtors filed their Joint Plan of Reorganization as the method for the Debtors to exit chapter 11. On March 13, 2002, the Debtors filed their First Amended Joint Plan of Reorganization (the "Plan"). A copy of the Plan is annexed hereto as Appendix 1. Unless defined in this Disclosure Statement, each capitalized term used in this Disclosure Statement has the definition ascribed to such term in Article I of the Plan.

A. Purpose of this Disclosure Statement

This Disclosure Statement is intended to aid creditors and shareholders in making an informed judgment regarding acceptance or rejection of the Plan. If you have any questions regarding the Plan, the Debtors urge you to contact Heather Hensley at tel. # 212-728-8000.

While the Bankruptcy Court has approved this Disclosure Statement as containing "adequate information" to enable you to vote on the Plan, the Bankruptcy Court's approval of the Disclosure Statement does not constitute approval or disapproval of the Plan. The Bankruptcy Court will consider approval of the Plan only after completion of voting on the Plan.

B. Voting on the Plan

THE DEBTORS AND THE OFFICIAL CREDITORS' COMMITTEE BOTH SUPPORT THE PLAN AND URGE YOU TO VOTE TO ACCEPT THE PLAN.

1. Eligibility to Vote

The Plan classifies Claims in the following classes:

<u>Class</u>	<u>Description</u>
Class 1	Administrative Claims
Class 2	DIP Loan Claims
Class 3	Mortgagee Claims
Class 4	Other Secured Claims
Class 5	Priority Tax Claims
Class 6	Other Priority Claims
Class 7	General Unsecured Claims
Class 8	Equity Interests

Only Classes that under the Plan are both impaired and will receive a distribution are entitled to vote. Under the Plan, holders of Claims in classes 3, 7 and 8 are entitled to vote. Holders of Claims in unimpaired Classes (Classes 1, 2, 4, 5, and 6) are deemed to have accepted the Plan.

Within voting classes, only holders of "Allowed Claims" (as defined in the Plan) are entitled to vote. Nonetheless, the Bankruptcy Court may fix temporarily the amount of a disputed Claim solely for voting purposes.

One or more ballots are enclosed with each copy of this Disclosure Statement sent to those entities entitled to vote. Any creditor holding Claims in more than one impaired class that is entitled to vote on the Plan will receive a ballot for each such class.

2. Voting Procedures

The record date for determining which creditors and equity holders may vote on the Plan is February 28, 2002.

To be counted, Ballots must be marked, signed, and returned so they are received no later than 5:00 p.m. (Eastern Time), on April 19, 2002. After reviewing the Plan and this Disclosure Statement, please indicate your vote on each enclosed Ballot and return the Ballot(s) in the enclosed self-addressed envelope to the Balloting Agent:

If sent by regular mail, to:

Frank's/FNC Balloting Center c/o
Bankruptcy Services, LLC
P.O. Box 5014
F.D.R. Station
New York, New York 10150-5014

If sent by overnight mail or by hand to:

Frank's/FNC Balloting Center
c/o Bankruptcy Services, LLC
70 East 55th Street
6th Floor
New York, New York 10022

If your ballot is not signed and returned as required, it will not be counted. If your ballot is damaged or lost, or if you do not receive (but you believe you are entitled to receive) a ballot, then you may request a ballot by sending a written request to: Frank's/FNC Balloting Center, c/o Bankruptcy Services LLC, 70 East 55th Street, New York, N.Y. 10022, Attn.: Tirzah Gordon.

3. Vote Solicitation

The process of soliciting votes on the Plan must be in accordance with the following restriction:

NO REPRESENTATIONS CONCERNING THE DEBTORS,
THEIR ASSETS, THEIR PAST AND FUTURE OPERATIONS,

AND THE PLAN ARE AUTHORIZED, EXCEPT THOSE IN THIS DISCLOSURE STATEMENT OR OTHERWISE AUTHORIZED BY THE BANKRUPTCY COURT.

If you believe your vote is being solicited outside the judicially approved and statutorily defined disclosure requirements and voting procedures, please immediately contact counsel for the Debtors, Willkie Farr & Gallagher, 787 Seventh Avenue, New York, NY 10019-6099, (212) 728-8000 (Attn: Alan J. Lipkin, Esq.).

4. Acceptance of Plan

Under the Bankruptcy Code, an impaired class of Claims entitled to vote has accepted a plan if, of those voting, the holders of two-thirds (2/3) in dollar amount, and more than one-half (1/2) in number, of claims accept.

5. Hearing on Confirmation of Plan

The Bankruptcy Court has scheduled a hearing to consider confirmation (*i.e.*, approval) of the Plan on May 1, 2002, at 10:00 a.m. (Eastern Daylight Savings Time), in Courtroom 9D of the United States Bankruptcy Court, Garmatz Federal Courthouse, 101 West Lombard Street, Baltimore, Maryland 21202. The confirmation hearing may be adjourned from time to time without further notice other than by announcement in the Bankruptcy Court on the scheduled hearing date.

ARTICLE II.

SUMMARY OF THE PLAN

A. General Overview

The key elements of the Plan include, among other things, the following:

- Continuation of Operations. The Debtors shall retain and continue to operate their business at 170 store locations that are owned by the Debtors or are subject to leases that have been assumed or will be assumed pursuant to the Plan.
- Exit Financing. Commitments have been provided for two separate financing facilities that will fund the distributions under the Plan and the Debtors' future working capital needs. One is a \$50 million revolving loan secured by the Debtors' receivables, inventory, and certain other assets. The second is comprised of \$30 million of term and revolving loans secured by the Debtors' owned (but unmortgaged) and leased real property.
- Issuance of New Common Stock. Except for holders subject to the Lump Sum Election, described below, each holder of an Allowed Class 7 Claim will receive its pro rata share of 100% of the Debtors' outstanding New

Common Stock as of the Plan's Effective Date (*i.e.*, 20 million shares). All shares of New Common Stock will be subject to dilution based on future issuances of additional shares of New Common Stock, including those for management options (to purchase up to 3,652,174 shares), warrants for old equity holders (to purchase up to 913,044 shares), and conversion rights of Kimco Realty Corporation and its affiliates ("Kimco")¹ as part of the exit financing (up to 5,869,565 shares). All existing stock of the Debtors will be canceled.

- Lump Sum Election. Each holder of a Class 7 Claim may elect on its ballot to receive a single lump sum payment in lieu of receipt of any New Common Stock and in full satisfaction of any and all other distributions to be made on behalf of such Claim. There may be no partial Lump Sum Election for a Claim and, therefore, all elections will be treated as an election for the entire Claim. All holders of Class 7 Claims of \$10,000 or less that are not Old Senior Subordinated Notes Claims shall be deemed to have made the Lump Sum Election. Such lump sum payment will be 10¢ on each dollar of Allowed Class 7 Claim, which will be payable on the Initial Distribution Date.
- Mortgagee Claims. Subject to certain modifications, the Mortgagee Claims shall be reinstated and paid in full on modified terms (such as a 20-year term, 6% interest rate, etc.) as set forth in further detail below.
- Payment in Full. Holders of Administrative Claims, DIP Loan Claims, Mortgagee Claims, Other Secured Claims, Priority Tax Claims and Other Priority Claims will be paid in full in accordance with the Plan.
- Substantive Consolidation. FNC shall be substantively consolidated and merged into Frank's for all purposes under the Plan.

¹ Kimco is a creditor of the Debtors and is a member of the Committee.

B. Summary of Creditor Recoveries

The following chart summarizes the proposed distributions under the Plan:

<u>CLASS</u>	<u>APPROXIMATE AGGREGATE AMOUNT OF CLAIMS ASSERTED²</u>	<u>DEBTORS' ESTIMATE OF AGGREGATE VALID CLAIMS³</u>	<u>APPROXIMATE RECOVERIES BASED ON THE DEBTORS' ESTIMATES OF VALID CLAIMS</u>
1. Administrative Claims (excluding ordinary course of business)	\$10,900,000	\$5,000,000	100%
2. DIP Lenders' Claims	N/A	\$10,600,000	100%
3. Mortgagee Claims	\$25,000,000	\$24,700,000	100% (reinstatement subject to various modifications) See also Section IV.A.3 below
4. Other Secured Claims	\$2,000,000	\$200,000	100% (reinstatement subject to various modifications) or (i) pay in full or (ii) transfer collateral
5. Priority Tax Claims	\$1,600,000	\$1,200,000	100%

² The amounts of "Aggregate Claims" in this column do not include any estimates for: (a) unliquidated proofs of claim; (b) Claims that by stipulation only may be asserted by way of set off and not for affirmative recovery; or (c) Claims that have been disallowed by the Bankruptcy Court. (The Debtors' estimates in the third column, however, do include estimates for unliquidated proofs of claim.)

³ Generally, the aggregate Claims asserted against the Debtors exceed the total amount of Allowed Claims estimated by the Debtors because, among other things, certain Claims: (a) were filed after the Bar Date; (b) were filed in duplicate; (c) were superseded by subsequent amendments to previously filed Claims; (d) allege an obligation of an entity other than the Debtors; (e) assert contingent Claims against the Debtors; (f) include postpetition interest and other disallowed amounts; (g) are invalid or subject to setoff or recoupment; or (h) are being resolved as part of settlement agreements that are in the process of being documented and presented to the Bankruptcy Court for approval. **NEVERTHELESS, THE ACTUAL AGGREGATE AMOUNT OF ALLOWED CLAIMS STILL MAY DIFFER SIGNIFICANTLY FROM THE DEBTORS' ESTIMATES.**

<u>CLASS</u>	APPROXIMATE AGGREGATE AMOUNT OF CLAIMS <u>ASSERTED</u>²	DEBTORS' ESTIMATE OF AGGREGATE <u>VALID CLAIMS</u>³	APPROXIMATE RECOVERIES BASED ON THE DEBTORS' ESTIMATES OF <u>VALID CLAIMS</u>
6. Other Priority Claims	\$100,000	\$100,000	100%
7. General Unsecured Claims	\$250,000,000	\$182,000,000 to \$192,000,000	105 shares per \$1,000 of Allowed Claim. For those making or deemed to have made the Lump Sum Election, 10¢ per \$1.00 of Allowed Claim
8. Equity Interests	N/A	N/A	4 year warrants to purchase up to 3% of the new equity at \$1.38 per share

ARTICLE III.

BACKGROUND ON CERTAIN EVENTS LEADING TO, AND CERTAIN KEY DEVELOPMENTS DURING, THE CHAPTER 11 CASES

A. The Debtors' Businesses

Frank's, founded in 1949, operates the largest United States chain (as measured by sales) of specialty retail stores devoted to the sales of lawn and garden products. Lawn and garden products include green and flowering plants for outdoor and indoor usage, live landscape products such as trees and shrubs, fertilizers, seeds, bulbs, gardening tools and accessories, planters, watering equipment, garden statuary and furniture, wild bird food and feeders, mulches and specialty soils. Frank's also is a leading retailer of Christmas Trim-A-Tree merchandise, artificial flowers and arrangements, garden and floral crafts, and home decorative products. FNC (formerly known as General Host Corporation) is the sole shareholder of Frank's.

The Debtors' sales are seasonal. The lawn and garden revenues are concentrated principally in the Spring and, to a lesser extent, in the Fall. The Trim-A-Tree sales occur primarily between Thanksgiving and Christmas.

As of the Petition Date, Frank's operated 217 retail stores in 15 states, primarily in the Midwest and Northeast. At that time, 44 additional stores were being closed as part of a previously announced plan to sell under-performing store locations. In its fiscal year ending January 28, 2001, Frank's had sales of approximately \$435 million. On or about the Petition Date, the Debtors employed approximately 1,900 full-time and 5,000 part-time employees.

Presently, the Debtors continue to operate 170 store locations in 14 states. As of January 25, 2002, the Debtors employed approximately 1,426 full-time and 2,938 part-time employees.

B. Certain Events Leading to the Debtors' Chapter 11 Filings

During most of the first half of 2000, weather patterns negatively impacted lawn and garden product sales across the Debtors' principal markets. During the third quarter of 2000, the Debtors decided to close 44 under-performing stores, liquidate their inventories, and sell the closed stores owned by the Debtors. Later in 2000, it became apparent that the Debtors' Trim-A-Tree holiday season sales were below expectations, which was consistent with the general softness in sales at retailers during this period.

In early 2001, notwithstanding excess borrowing availability under their existing bank credit facilities, the Debtors were unable to draw down sufficient funding to meet the Debtors' working capital needs because their prepetition lenders asserted that various conditions to borrowing had not been met. Also, in the relatively short period since access to their credit facilities had been curtailed, the Debtors were unable to secure

additional funding to meet those working capital needs. Ultimately, the Debtors determined the most appropriate method to obtain such financing and achieve their restructuring objectives was through chapter 11 filings.

C. **Overview of the Chapter 11 Cases**

On February 19, 2001, each of the Debtors filed voluntary chapter 11 petitions with the Bankruptcy Court. Since then, the Debtors have continued in possession of their properties and in the management of their businesses as debtors in possession.

1. *The Creditors' Committee*

On February 19, 2001, the United States Trustee appointed an interim official committee of unsecured creditors (the "Committee") in these cases. On March 9, 2001, the United States Trustee finalized the membership of the Committee.

2. *Postpetition Financing and Cash Collateral*

At the outset of these cases, the Debtors required immediate working capital financing to continue operating. Substantially all of the Debtors' cash was asserted to be cash collateral of the Debtors' prepetition lenders. Accordingly, the Debtors negotiated with, and obtained the consent of, such prepetition lenders to use such cash collateral pending entry of an interim DIP financing order. That financing order authorized the Debtors to enter into a postpetition financing agreement with a syndicate of new lenders (the "DIP Lenders") led by Wells Fargo Retail Finance, LLC, as agent ("Wells Fargo"). On March 8, 2001 the Court entered a final order (the "Final DIP Order"), approving an up to \$100 million debtor-in-possession financing facility (the "DIP Facility") with the DIP Lenders. The DIP Facility is secured by, among other things, a continuing first priority lien on and security interest in substantially all assets of the Debtors, which were not encumbered as of the Petition Date, and a junior lien on the assets that were so encumbered.

3. *Stabilization of Businesses*

Beyond the financial arrangements discussed above, the Debtors devoted substantial efforts early in these cases towards stabilizing their operations and restoring employee, vendor and customer relationships that had deteriorated prior to the Petition Date. For example, through the "First Day" and "Second Day" motions the Debtors successfully obtained, among other things: (i) authority to pay certain prepetition employee-related expenses; (ii) authority to maintain the Debtors' cash management system and bank accounts; and (iii) establishment of procedures to provide adequate assurance to utilities. Each motion was designed to facilitate the Debtors' ability to perform critical functions while in chapter 11. Later, in order to retain certain key employees, the Debtors obtained Court authorization to establish an employee retention incentive program, to incentivise employees to remain through the Plan's Effective Date.

4. *Disposal of Closed Store Locations and Related GOB Sales*

As of the Petition Date, the Debtors were in the process of closing 44 stores. Since the Petition Date, the Debtors have closed an additional 47 stores.

The Debtors worked toward disposal of real property interests and inventory relating to those closed store locations. The Debtors negotiated agreements with Hilco Merchant Resources, LLC to conduct store closing sales at most of the Debtors' underperforming retail locations. Also, the Debtors have either assumed and assigned, rejected, or entered into lease cancellation agreements for value with various landlords for over 47 retail leases. Further, the Debtors have consummated 26 transactions for the sale of real property relating to the closed locations. Currently, thirteen owned and two leased real properties relating to closed locations remain to be disposed.

5. *Claims Resolution*

Claims, aggregating in excess of \$302 million were filed against the Debtors. The Debtors have devoted substantial efforts towards reviewing the filed claims and, where warranted based upon the Debtors' books and records, have objected to numerous claims. To date the Debtors have reduced the aggregate amount of prepetition claims by approximately \$15 million. The Debtors are continuing to review proofs of claim in order to ascertain what additional objections need be made.

6. *New Chief Executive Officer*

By mutual agreement with the Debtors, Joseph Baczko, the Debtors' then Chief Executive Officer, terminated his employment with the Debtors effective June 30, 2001. Meanwhile, the Debtors engaged an executive search firm, to locate and engage a new Chief Executive Officer to lead Frank's through the remainder of the chapter 11 process and remain as CEO of the reorganized company. After consultation with the Committee, the Debtors selected Steven S. Fishman as the new CEO. Mr. Fishman commenced work on September 25, 2001.

7. *Development of a Business Plan*

Since the completion of the Spring 2001 season and closing of underperforming locations, management has focused on continuing to develop initiatives to turn around the Debtors' remaining operations. Also, after working with their financial and legal advisors, the Debtors actively engaged in discussions with the Committee regarding developing and finalizing the Debtors' business plan.

8. *Plan of Reorganization*

Thereafter, the Debtors negotiated terms of the Plan with various key constituencies. The Plan is supported by the Committee and the Debtors' equity holders.

ARTICLE IV.

THE DEBTORS' PLAN OF REORGANIZATION

THE FOLLOWING IS A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN, A COPY OF WHICH IS ANNEXED TO THIS DISCLOSURE STATEMENT AS APPENDIX 1. IN CERTAIN RESPECTS, THE PLAN DEALS WITH SOPHISTICATED LEGAL CONCEPTS. THEREFORE, YOU MAY WISH TO CONSULT WITH COUNSEL BEFORE VOTING ON THE PLAN.

A. Classification and Treatment of Claims and Interests

Under the Plan, Claims are classified and treated as discussed below. For ease of reference, estimates assume an Effective Date for the Plan of May 19, 2002. The actual Effective Date may vary from that date.

1. Class 1 - Administrative Claims

Description. Class 1 consists of all Administrative Claims against the Debtors. Administrative Claims are Claims that arose after the Petition Date and were incurred during the Chapter 11 Cases, including claims for professional fees. The Debtors estimate that on the Effective Date of the Plan unpaid Allowed Class 1 Claims will aggregate approximately \$5 million, consisting primarily of approximately \$1 million for professional fees, \$500,000 for employee retention payments, approximately \$3 million for cure payments related to the assumption of leases and contracts, and approximately \$500,000 for other administrative claims. Additionally, the Debtors will remain obligated to pay postpetition Claims incurred by the Debtors in the ordinary course of their business.

Treatment. Professionals whose compensation is subject to approval by the Bankruptcy Court shall be paid in Cash in the amounts awarded to such professionals by order of the Bankruptcy Court within ten (10) Business Days after such order is entered. Other Administrative Claims (except for ordinary course claims) shall be paid in Cash in full on the later of the Effective Date and the date such Claims become Allowed Claims. Ordinary course Administrative Claims will be paid in accordance with the terms and conditions of the particular transaction giving rise to such liabilities (or as soon thereafter as is reasonably practicable).

The Debtors expect the confirmation order to set a deadline for the filing of professional fee applications. The Plan does not provide for an Administrative Claims bar date because of the substantial administrative burdens and expenses associated with such a bar date.

2. Class 2 - DIP Lenders' Claims.

Description. Class 2 consists of DIP Lenders' Claims. The DIP Lenders' Claims are all Claims of the DIP Lenders relating to and arising under the DIP Facility.

The DIP Lenders' Claims are secured by, among other things, a continuing first priority lien on and security interest in all properties and interests in property of the Debtors, which were not encumbered as of the Petition Date, and a junior lien on substantially all other property. As of January 27, 2002, the principal amount outstanding under the DIP Facility was approximately \$24.3 million. Currently, the DIP Facility is scheduled to mature on the Effective Date of the Plan. The Debtors estimate that on the Effective Date of the Plan, the Allowed Class 2 Claims will aggregate approximately \$10.6 million. There will be no prepayment or early payment fee or penalty due under the DIP Facility.

Treatment. Upon the Effective Date, the DIP Lenders' Claims shall be paid in full, in Cash, in an amount equal to such Allowed Class 2 Claim on the Effective Date.

3. Class 3 - Mortgagee Claims.

a. Description. Class 3 consists of all Mortgagee Claims. Technically, each Mortgage Claim secured by different collateral will constitute a separate subclass for voting and Plan confirmation purposes. The Debtors believe the aggregate Allowed amount of Class 3 Claims will approximate \$24.7 million.

b. Treatment. Unless otherwise mutually agreed upon by the Debtors and respective Mortgagee in writing and approved by the Court prior to the Effective Date, on the Effective Date, each Mortgage Claim will be treated as follows:

Principal Amount of Secured Claim	Sum of:
	<ul style="list-style-type: none"> • principal amount of outstanding indebtedness as of February 19, 2001 (the "Petition Date"); <i>plus</i> • interest at the non-default rate under the applicable loan documents from the last date through which interest payments were made on the mortgage loan through the Plan confirmation date; <i>minus</i> • aggregate payments received by the Mortgagee since the Petition Date (<i>e.g.</i>, as a result of collateral sales or adequate protection payments); • <i>provided, however, that as to any Mortgagee Claim as to which the applicable Mortgagee does not accept the Plan, the Debtors shall have the option, until the Confirmation Date, to seek a determination that such Mortgagee Claim is undersecured. If the Court determines that any such Claim is in fact undersecured, then only the portion of such</i>

⁴ The treatment of the Mortgagee Claims under the Plan as fully secured reflects in part a concession by the Debtors on this point, which is only being extended to those Mortgagees who, in turn, vote to accept the Plan.

	Mortgagee Claim that is determined to be a Secured Claim shall be entitled to treatment in Class 3 and any unsecured deficiency Claim included in such Mortgagee Claim shall be treated in Class 7.⁴
Postconfirmation Interest Rate	6% per annum, payable monthly in arrears
Term	20 years from the Effective Date.
Amortization	20 years, payable monthly in arrears
Prepayment	The loan shall be prepayable without penalty or premium in whole or in part at any time prior to maturity with at least thirty (30) days advance notice.
Default Interest and Penalties	Mortgagee will have no claim for any default under the loan documents, including, without limitation, claims for default rate interest, penalties, attorneys fees, and any other claims not included in the calculation of the secured claim.
Escrows/Reserves	To the extent that any tax or insurance escrows or other escrows or reserves are being held by the Mortgagee pursuant to the relevant loan documents, such amount being so held shall be applied against the Debtors' first interest payment after the Effective Date and no such escrows or reserves shall be required after the Effective Date.
Single Obligation of Reorganized Frank's	Any guarantees or joint obligations of the Debtors in respect of the Mortgagee Claims pursuant to the Mortgagee Loan Documents shall be subject to the substantive consolidation effected under the Plan and, accordingly, shall merge into a single claim against Reorganized Frank's.
Elimination of Certain Covenants	Any representations, warranties, or covenants relating to the financial condition, capitalization, or operations of the Debtors contained in the Mortgagee Loan Documents shall be of no force or effect.
Other Terms	The remaining terms and conditions of each existing loan document shall remain in effect.
Mortgagee Cooperation	As a condition to the receipt of any payments by the Mortgagees on account of the Mortgagee Claims pursuant to the Plan, each Mortgagee shall be required to execute any agreements, amendments or supplements or to supply such information as the Debtors determine to be reasonably necessary or appropriate to evidence the modifications to the Mortgagee Loan Documents effected by the Plan or to determine the amounts in any escrow or reserve funds required to be maintained pursuant to the relevant Mortgagee Loan Documents.

4. **Class 4 - All Other Secured Claims.**

Description. Class 4 consists of all Secured Claims against the Debtors other than those held by the DIP Lenders (Class 2) and Mortgagees (Class 3). The Debtors currently are not aware of any Claims likely to become Allowed Class 4 Claims.

Election of Alternative Treatments. On the later of the Effective Date and ten (10) Business Days after the date on which a Class 4 Claim becomes an Allowed Claim, such Claim shall be paid in full by, at the election of Reorganized Frank's made on or before such date; either

- i. reinstating the Claim, that is, leaving unaltered the legal, equitable, and contractual rights respecting such Claim in accordance with section 1124 of the Bankruptcy Code, including:
 - (A) curing all pre- and postpetition defaults other than defaults relating to the insolvency or financial condition of the relevant Debtor or its status as a debtor under the Bankruptcy Code; and
 - (B) reinstating the maturity date of the Claim;
- ii. paying such Claim in full, in Cash, in an amount equal to such Allowed Class 4 Claim on the Effective Date; or
- iii. transferring title to the property securing such Allowed Class 4 Claim to the holder of such Claim. Within thirty (30) days after mailing by the Debtors or Reorganized Debtors of notice of the election of this option (iii), the holder of an Allowed Class 4 Claim shall be entitled to amend in writing or file a proof of claim for any unsecured deficiency Claim respecting such Claim (to the extent such holder has recourse to a Debtor respecting such Class 4 Claim, and provided the holder has timely filed a proof of claim respecting such Class 4 Claim or whose Class 4 Claim was listed in the Schedules as nondisputed, noncontingent, and liquidated). To the extent, if any, allowed and/or subordinated, such deficiency claim shall be treated in Class 7, as appropriate.

Resolution of Allowed Amounts. Schedule 3.04 to the Plan lists: (i) each Class 4 Claim; (ii) the amount in which each such Claim is proposed to be allowed; and (iii) the additional cure amount, if any, proposed to be paid if the Claim is to be reinstated. If prior to the Confirmation Date or such other date as the Bankruptcy Court may fix, a holder of a Class 4 Claim fails to file with the Bankruptcy Court and serve on the attorneys for the Debtors an objection to the amount(s) set forth in such Schedule 3.04 respecting such Claim, then such holder shall be forever barred from asserting any Claims against the Debtors exceeding the proposed Allowed amount of such Claim, and Reorganized Frank's shall be entitled to rely upon such amount(s) in selecting the

treatment for the Claim under this section. If a timely objection to the amounts listed on Schedule 3.04 is served and filed by a holder of a Class 4 Claim, then such holder's Claim shall be deemed to be a Disputed Claim to be resolved in accordance with the Plan.

5. Class 5 - Priority Tax Claims

Description. Class 5 consists of all Priority Tax Claims against the Debtors. Class 5 is not impaired. The Debtors project Allowed Class 5 Claims will approximate \$1.2 million.

Treatment. On the later of the Effective Date and ten (10) Business Days after the date on which a Class 5 Claim becomes an Allowed Claim (or as soon after as reasonably practicable thereafter), such Claim shall be paid in full, in Cash; provided, however, that the Debtors shall have the option, exercisable prior to the Effective Date, to pay any Priority Tax Claim over a period not longer than six (6) years from the date of assessment of the applicable tax, with interest on the unpaid portion payable annually in arrears at the legally required rate.

6. Class 6 - All Other Priority Claims

Description. Class 6 consists of all other Priority Claims against the Debtors, including the priority portion of employee compensation Claims for unpaid wages and other benefits. Class 6 is not impaired. The Debtors estimate Allowed Class 6 Claims will aggregate approximately \$100,000.

Treatment. On the later of the Effective Date and ten (10) Business Days after the date on which a Class 6 Claim becomes an Allowed Claim (or as soon after as reasonably practicable thereafter), such Claim shall be paid in full, in Cash.

7. Class 7 - General Unsecured Claims

Description. Class 7 consists of all General Unsecured Claims against the Debtors, including, without limitation, those Claims held by, among others: (i) trade vendors; (ii) plaintiffs in personal injury lawsuits; (iii) bondholders; and (iv) lessors of rejected leases. The Debtors estimate aggregate Allowed Class 7 Claims will range from \$182 million to \$192 million. Due to substantive consolidation of the Debtors, no intercompany Claims between the Debtors are included in Class 7.

Treatment.

(a) Issuance of New Common Stock. Each holder of an Allowed Class 7 Claim, who is not subject to the Lump Sum Election discussed in the next paragraph, will share, on a *pro rata* basis, 100% of the New Common Stock to be outstanding on the Effective Date. All shares of New Common Stock will be subject to dilution based on future issuances of additional shares of New Common Stock, including the options for management to purchase up to 3,652,174 shares of New Common Stock to be vested over time, four year warrants for current equity holders to purchase up to 913,044 of the New

Common Stock, and conversion rights of Kimco Realty Corporation⁵ and its affiliates as part of its Exit Financing to convert outstanding indebtedness into up to 5,869,565 shares of the New Common Stock. All such options, warrants, and conversion rights will be exercisable at \$1.15 per share, except for the 3% for old equity, which would be at \$1.38 per share. If all the foregoing options, warrants and conversion rights were exercised, then on a fully diluted basis Class 7 would hold approximately 66% of the New Common Stock.

(b) Lump Sum Election. Each holder of a Class 7 Claim may elect on its Ballot to receive a single lump sum payment in lieu of receipt of New Common Stock and in full satisfaction of any and all distributions under the Plan to Class 7 creditors. There may be no partial election for a Claim and all elections shall be deemed to be an election with respect to the entire Claim. All holders of Class 7 Claims of \$10,000 or less that are not Old Senior Subordinated Notes Claims shall be deemed to have made the Lump Sum Election. Such lump sum payment shall be 10¢ on each dollar of Allowed Class 7 Claim, which shall be payable on the Initial Distribution Date. To the extent the \$5 million (or such higher amount as Kimco may elect, at least 10 days' prior to the Effective Date, in its sole and absolute discretion) allocated for payment of the claims subject to the Lump Sum Election is not sufficient to satisfy all such claims, such claims shall be paid in the order of lowest to highest amounts, with the lowest amounts being paid first. The option to elect this single lump sum payment is conditioned on confirmation of the Plan and the occurrence of the Effective Date.

The Lump Sum Election is neither intended to nor would it necessarily provide unsecured creditors with the equivalent of the present value or replacement value of the New Common Stock that otherwise would be issued respecting Claims subject to the Lump Sum Election. Instead, the Lump Sum Election is included in the Plan to provide unsecured creditors with an opportunity to immediately convert their Claims into cash and to enable smaller Claims holders to cash out rather than receive odd lots of shares. Further, the lump sum payments would eliminate potential risks such as those associated with diluted value due to future issuances of additional shares New Common Stock, delay in resolving disputed Claims, or the aggregate amount of Allowed Claims in Class 7 exceeding the Debtors' estimates.

If a holder of a disputed Class 7 Claim makes, or is deemed to have made the Lump Sum Election, the lump sum payment escrow will reserve a distribution as if the disputed Claim were allowed in full. Upon resolution of such disputed Claim: (a) to the extent such Claim is determined to be an Allowed Claim, the holder thereof will receive the appropriate lump sum payment; and (b) the remainder reserved shall be available for other Claims subject to the Lump Sum Election.

(d) Funding of Lump Sum Election Payments.

⁵ Or its designee. A Kimco affiliate is a significant creditor of the Debtors and is a member of the Committee.

The \$5 million to fund the lump sum cash payments will be supplied by Kimco.⁶ Kimco then would receive the Distributions on such Claims provided for under the Plan. As noted above, Kimco independently is a significant creditor of the Debtors and a member of the Committee.

On or before the Effective Date, Kimco will post a \$5 million letter of credit to secure its obligation to purchase Claims subject to Lump Sum Elections. Alternatively, at Kimco's option, Kimco may deposit \$5 million into an escrow account to fund the Lump Sum Election distributions. To the extent, if any, the \$5 million deposited in escrow to fund the Lump Sum Elections is not exhausted, such funds shall be returned to Kimco. All interest accrued in the escrow account shall be paid to Reorganized Frank's at the end of each month.

Certain Factors Affecting Distributions on General Unsecured Claims.

(a) The aggregate Allowed General Unsecured Claims listed above are estimates and actual results may vary. Thus, the number of shares of New Common Stock issued for each \$1.00 of Class 7 Claim may be higher or lower than the estimates. That is because each unsecured creditor would share ratably with the pool of Allowed Class 7 Claims (with the numerator, *i.e.*, the aggregate amount available for distribution (20 million shares of New Common Stock) to be spread among an as of now uncertain denominator, *i.e.*, the aggregate amount of Allowed Claims in Class 7).

(b) Unless otherwise ordered by the Bankruptcy Court, pending resolution of all Disputed General Unsecured Claims, certain amounts of New Common Stock will need to be reserved respecting such Disputed General Unsecured Claims as if they were to become Allowed General Unsecured Claims. Hence, all or a portion of the distributions to which the holder of an Allowed General Unsecured Claim ultimately will be entitled may be deferred pending the resolution of such Disputed Claim.

(c) The Indenture Trustee asserts that all distributions made to holders of Old Senior Subordinated Notes Claims are subject to a charging lien under the Indenture for the Indenture Trustee's fees and expenses incurred thereunder, and that the Indenture Trustee is entitled to withhold and sell New Common Stock allocable to bondholders to the extent sufficient to satisfy the Indenture Trustee's claims.⁷ The Indenture Trustee estimates that its claim will approximate \$80,000. The enforcement of any charging lien by the Indenture Trustee would have the effect of slightly reducing (by less than 0.1%) the net Ratable Share of the New Common Stock ultimately received by

⁶ This \$5 million would be reduced by any amounts used by Kimco to purchase New Common Stock from the Indenture Trustee to discharge the Indenture Trustee's asserted charging lien. See *infra* n.7.

Annexed as Appendix 5 hereto is a commitment letter evidencing Kimco's offer to fund the Lump Sum Election payments.

⁷ Under the Plan, the Indenture Trustee would sell such New Common Stock to Kimco for the Ascribed Value.

holders of Old Senior Subordinated Notes Claims. Alternatively, if the Indenture Trustee establishes that it is entitled to be paid out of the Debtors' estates pursuant to section 503(b) of the Bankruptcy Code or on any other ground, the Indenture Trustee may have a postpetition claim against the Debtors for the Indenture Trustee's fees that would be paid directly from the Debtors.

Subordinated Claims

Any Claim subordinated pursuant to sections 510(b) or (c) of the Bankruptcy Code or otherwise to Class 7 Claims shall be in Class 7 provisionally but receive no distributions therefrom.

8. Class 8 - Equity Interests

Description. Class 8 consists of all Equity Interests.

Treatment. On the Initial Distribution Date, each holder of a Class 8 Interest shall receive its Ratable Share of four-year warrants representing the right to purchase up to 913,044 shares of New Common Stock for \$1.38 per share (*i.e.*, 120% of the Ascribed Value of \$1.15 per share).

B. Means of Plan Implementation

1. Funding.

The funds to be distributed pursuant to the Plan and the Debtors ongoing working capital needs will come from the Debtors' cash on hand and up to \$80 million in funding from the Exit Facilities. Commitment letters have been obtained by the Debtors in respect of two Exit Facilities. One facility, to be provided by Kimco, would be for a term loan and revolving loan aggregating \$30 million to be secured by the Debtors' owned but unmortgaged and leased real estate. The loans would bear interest at 10.25% per annum for an initial term of three years, with renewal rights. The other Exit Facility would be a \$50 million revolving loan to be secured by the Debtors' inventory, receivables, and certain other assets. This loan would, at the option of Reorganized Frank's, bear interest at: (a) prime rate plus .25% or .50%; or (b) Eurodollar rate plus 2.75%, 3.00%, or 3.25%, in each case depending upon Reorganized Frank's excess availability under the Exit Facility, for an initial term of three years, with renewal rights. More detail on each of the Exit Facilities can be found in the respective commitment letters annexed to the Plan.

Prior to entering into the commitments for the Exit Facilities, the Debtors contacted several banks and other potential post-Effective Date lenders to obtain one or more exit financing facilities. After considering those alternatives, the Debtors, after consultation with the Committee, determined that the combination of the two Exit Facilities, in the aggregate, would provide Reorganized Frank's with exit financing on the best economic terms, considering the Debtors' timing and liquidity requirements.

2. Post-Effective Date Management.

On the Effective Date, the respective Boards of Directors and officers of Frank's and FNC shall be reconstituted as follows:

The Board of Directors of Reorganized Frank's shall consist of five (5) members, including Reorganized Frank's Chief Executive Officer and four additional members to be selected by the Committee. As of the date hereof, the following persons will be designated to serve on the Board of Directors of Reorganized Frank's:

Steven S. Fishman

Current Position: Chief Executive Officer of the Debtors.

David Samber

Current Position: Chief Executive Officer, Kimco Select Investments (an affiliate of Kimco Realty Corporation).

Aaron J. Fleishaker

Current Position: Executive Vice President, Kimco Realty Corporation.

Joseph Nusim

Current Position: Chairman of the Nusim Group, a retail consulting firm. The Nusim Group is a retained Committee professional in the Debtors' chapter 11 cases.

Gerald Hellerman Managing Director, Hellerman Associates (provides financial consulting and litigation support services, including expert testimony in government-related investigations, litigation, and settlements)

Except as otherwise provided in the Plan, the members of the existing Board of Directors of the Debtors shall have no continuing obligations to Reorganized Frank's on or after the Effective Date.

3. Retention and Enforcement of Avoidance Actions.

Except as expressly provided in the Plan, on the Effective Date, all rights, claims, and causes of action of the Debtors pursuant to: (a) sections 541, 542, 544, 545, 547, 548, 549, 550 and 553 of the Bankruptcy Code; and (b) all other claims and causes of action of the Debtors against any Person as of the Effective Date, shall be preserved and become property of Reorganized Frank's. On the Effective Date, Reorganized Frank's shall be deemed the representative of the Debtors' estates under section 1123(b) of the Bankruptcy Code and will be authorized and shall have the power to commence and prosecute any and all causes of action that could have been asserted by any of the Debtors.

To the extent not already commenced, Reorganized Frank's will commence or pursue actions against other parties to recover for potential preferences and fraudulent conveyances. The Debtors are in the process of analyzing prepetition

transactions that may give rise to Avoidance Actions and fully expect to pursue such actions.⁸

The net recoveries from any Avoidance Action shall be retained by the Debtors for the benefit of former Creditors who will be the Debtors' future shareholders.

4. **Substantive Consolidation.**

The Plan is predicated upon the substantive consolidation of the Debtors for bankruptcy purposes (e.g., for voting, confirmation, and distribution purposes). The Debtors, however, will retain their individual rights to pursue Avoidance Actions.

Substantive consolidation is an equitable remedy that may affect the rights and obligations of creditors. Here, substantive consolidation involves the pooling of the assets and liabilities of the Debtors so that they are treated as a single economic entity. Consequently, a creditor of any of the substantively consolidated Debtors is treated as a creditor of the substantively consolidated group of debtors.

The Bankruptcy Court's decision to grant substantive consolidation will turn on two primary factors: (i) the extent to which creditors dealt with the applicable Debtors as a single economic unit and did not rely on their separate identity in extending credit; and (ii) the extent to which the affairs of the applicable Debtors are so entangled that consolidation would benefit creditors.

The Debtors believe substantive consolidation of the Debtors is justified here. Since FNC's predecessor purchased Frank's in 1983, the Debtors generally have operated as a single integrated company. The Debtors had combined business functions and consolidated financial statements. Also, creditors generally ignored corporate distinctions among the Debtors and did not rely on corporate distinctions in providing goods and services and extending credit. Strict observance of corporate formalities did not always exist among the Debtors. Further, the costs and resources that would be required to track all inter-company transactions on a company-by-company basis would be wasteful.

Another factor that certain parties consider relevant to a determination of whether the Debtors should be substantively consolidated is the extent, if any, that creditors of each Debtor are likely to be materially prejudiced by substantive

⁸ No later than 20 days before the Confirmation Hearing, the Debtors will file with the Bankruptcy Court a schedule of potential preference defendants ("Schedule of Potential Avoidance Actions") against whom the Debtors could have affirmative Claims. The Schedule of Potential Avoidance Actions will include a schedule of persons that received payments from the Debtors within applicable preference periods and other potential defendants. As the Debtors have not yet completed their analysis of all potential preferences, the Schedule of Potential Avoidance Actions will not necessarily be comprehensive and may include potential Claims that the Debtors will not elect to pursue. The Plan expressly preserves all Claims assertable on behalf of the estates, whether they are included in the Schedule of Potential Avoidance Actions. The Debtors have not yet initiated and may never initiate actions against the parties scheduled.

consolidation. The Debtors believe that the benefits to the creditors of each Debtor that would result from substantive consolidation outweigh any potential prejudice that substantive consolidation may cause. FNC has few, if any, assets other than 100% of the stock of Frank's. FNC's liabilities also are relatively small, aggregating less than \$2 million of unsecured claims, other than claims for which FNC is jointly or severally liable with Frank's. As a result: (a) FNC's unsecured creditors likely would receive no distributions in the absence of substantive consolidation; and (b) any incremental benefit to creditors of Frank's in the absence of the merger of FNC's liabilities into Frank's would be outweighed by the administrative costs and professional fees that would be involved in disentangling the two Debtors and pursuing separate reorganization or liquidation strategies for each.

Accordingly, the Plan treats all General Unsecured Claims against the Debtors the same. That treatment represents the Debtors' assessment and proposed compromise of, among other things, the legal entitlements of those Claims, including the potential for substantive consolidation of each of the Debtors into one entity. The Plan's treatment of Class 7 Claims represents a compromise by Claim holders in that Class against the Debtors. Absent such a compromise, extensive litigation likely would occur as to issues of substantive consolidation, and the amount and priority of Claims among the individual Debtors.

Substantive consolidation would signify that on the Confirmation Date, but subject to the occurrence of the Effective Date: (i) all intercompany Claims by and among the Debtors would be eliminated; (ii) all assets and liabilities of the Debtors would be deemed merged and treated as merged; (iii) all cross-corporate guarantees of the Debtors would be eliminated; (iv) any obligation of any Debtor and all guarantees thereof executed by one or more of the Debtors would be deemed filed against the consolidated Debtors in the consolidated Bankruptcy Case and deemed to be joint and several obligations of all of the Debtors on and after the Confirmation Date; (v) all duplicate claims filed against more than one of the Debtors would be automatically expunged so that only one claim survives against the consolidated Debtors; and (vi) the consolidated Debtors would be deemed, for purposes of determining the availability of the right of set-off under section 553 of the Bankruptcy Code, as one Person such that the debts due to a particular Debtor may be offset against claims against such Debtor or another Debtor. On the Confirmation Date, all Claims based upon guarantees of collection, payment or performance made by the Debtors as to the obligations of another Debtor would be discharged, released and of no further force and effect.

5. Issuance of New Common Stock

The Plan provides for the issuance of the New Common Stock, which would be the only class of equity securities in Reorganized Frank's that would be created under the Plan (*i.e.*, the Plan does not provide for the issuance of preferred stock or more than one class of common stock). Under the Plan, Reorganized Frank's must use commercially reasonable efforts to cause the shares of the New Common Stock to be listed on a national securities exchange or a qualifying interdealer quotation system. It is intended that Reorganized Frank's would be a public reporting company under the

Securities Exchange Act of 1934 and would file periodic and current reports as required thereunder.

6. New Stock Option Plan

On the Effective Date, Reorganized Frank's will adopt and implement the New Stock Option Plan (which is annexed to the Plan as Schedule 1.52 thereto), under which 3,652,174 shares of New Common Stock are reserved for issuance pursuant to the grant of stock options under the New Stock Option Plan.⁹ This amount represents 12% of the New Common Stock (after giving effect to the exercise of all options, warrants and conversion rights provided under the Plan) and would be distributed as follows: (a) the CEO of Reorganized Frank's shall receive ten-year options to purchase up to 1,826,087 shares of New Common Stock, which shall vest and become exercisable as to 50% of the options on the Effective Date and as to the remaining 50% of the options on the first anniversary of the Effective Date; (b) the CEO of Reorganized Frank's shall have the ability to recommend to a subcommittee of the Board of Directors that it award to other members of senior management additional options for up to 1,826,087 shares of New Common Stock, which would vest in equal parts over a period of three (3) years; and (c) the exercise price of any management stock options granted as of the Effective Date shall be the Ascribed Value imputed to the New Common Stock, (*i.e.*, \$1.15 per share).

The purpose of the New Stock Option Plan is to encourage ownership of the New Common Stock by key employees of Reorganized Frank's and to provide additional incentive for them to promote the success of Reorganized Frank's. Pursuant to the New Stock Option Plan, approximately 20 officers and employees of Reorganized Frank's and its subsidiaries would be eligible to be selected by the Stock Option Committee as participants to receive stock options.

7. Post-Confirmation Role of the Committee.

As of the Initial Distribution Date, the duties of the Committee in the Reorganized Cases shall terminate, except with respect to (i) participating in appeals or motions for reconsideration of the Confirmation Order or modification of the Plan; (ii) reviewing and, if appropriate, objecting to professional fee applications or claims for substantial contribution under section 503(b) of the Bankruptcy Code.

The Committee's professionals shall receive reasonable compensation for their services from the Debtors. Post Effective Date fees and expenses of Committee professionals need not be approved by the Bankruptcy Court unless objected to by the Debtors.

C. Effect of Plan on Claims and Interests

1. Discharge of Debts.

⁹ Capitalized terms not otherwise defined in this Article II.B.6 or in the Plan shall have the respective meanings ascribed to such terms in the New Stock Option Plan.

Except as otherwise provided in the Plan or Confirmation Order, in accordance with section 1141(d)(1) of the Bankruptcy Code, entry of the Confirmation Order acts as a discharge, effective as of the Effective Date, of all Claims.

2. Release of Certain of the Debtors' Directors and Officers.

AS OF THE CONFIRMATION DATE, BUT SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE: NONE OF: (i) THE DEBTORS AND REORGANIZED FRANK'S AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS; (ii) AFFILIATES OF THE DEBTORS AND SUCH AFFILIATES' SUCCESSORS AND ASSIGNS; (iii) THE DEBTORS' PRESENT DIRECTORS AND OFFICERS; (iv) THE DEBTORS' FORMER DIRECTORS AND OFFICERS WHO HELD SUCH POSITION WITH ANY OF THE DEBTORS AS OF OR SINCE THE PETITION DATE; (v) AGENTS, ATTORNEYS, ADVISORS, FINANCIAL ADVISORS, AND INVESTMENT BANKERS OF THE DEBTORS AND THEIR AFFILIATES; AND (vi) ANY PERSON CLAIMED TO BE LIABLE DERIVATIVELY THROUGH AND OF THE FOREGOING, SHALL HAVE OR INCUR ANY LIABILITY TO ANY PERSON FOR ANY CLAIM, OBLIGATION, RIGHT, CAUSE OF ACTION OR LIABILITY (INCLUDING, BUT NOT LIMITED TO, ANY CLAIMS ARISING OUT OF ANY ALLEGED FIDUCIARY OR OTHER DUTY AND THE AVOIDANCE OF PREFERENCES OR FRAUDULENT CONVEYANCES) WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, EXISTING OR HEREAFTER ARISING, BASED ON WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION OR OCCURRENCE FROM THE BEGINNING OF TIME THROUGH THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS; AND ALL CLAIMS BASED UPON OR ARISING OUT OF SUCH ACTIONS OR OMISSIONS SHALL BE FOREVER WAIVED AND RELEASED; *provided, however,* THAT NO RELEASE PROVIDED UNDER THE PLAN SHALL AFFECT THE LIABILITY OF ANY PERSON THAT OTHERWISE WOULD RESULT FROM ANY ACTION OR OMISSION TO THE EXTENT THAT SUCH ACTION OR OMISSION IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED WILLFUL MISCONDUCT; *provided further, however,* THAT NOTWITHSTANDING THE RELEASE PROVIDED UNDER THE PLAN, ANY CLAIM ASSERTED AGAINST REORGANIZED FRANK'S PURSUANT TO SECTION 7.04 OF THE PLAN SHALL REMAIN SUBJECT TO ANY RIGHT OF SET-OFF THAT WOULD OTHERWISE BE AVAILABLE TO ANY OF THE DEBTORS OR REORGANIZED FRANK'S IN THE ABSENCE OF ANY SUCH RELEASE.

PURSUANT TO THE PLAN, THE RELEASE DESCRIBED ABOVE WOULD BE ENFORCEABLE AS A MATTER OF CONTRACT AGAINST ANY HOLDER OF A CLAIM OR INTEREST TIMELY NOTIFIED OF THE PROVISIONS OF THE PLAN. CREDITORS AND INTEREST HOLDERS OF THE DEBTORS WOULD BE ENJOINED FROM COMMENCING OR CONTINUING ANY ACTION, EMPLOYMENT OF PROCESS OR ACT TO

COLLECT, OFFSET OR RECOVER ANY CLAIM THAT IS RELEASED UNDER THE PLAN.

3. Survival of Certain Indemnification Obligations.

The obligations, if any, of the Debtors to indemnify individuals who serve or served after the Petition Date as the Debtors' respective directors, officers, agents, employees, representatives, and others, including (without limitation) professional persons retained by the Debtors, pursuant to the Debtors' certificate of incorporation, by-laws, applicable statutes and preconfirmation agreements in respect of all present and future actions, suits and proceedings against any of such officers, directors, agents, employees, representatives, and others, including (without limitation) professional persons retained by the Debtors, based upon any act or omission related to service with, for or on behalf of the Debtors on or before the Effective Date as such obligations were in effect at the time of any such act or omission, shall not be discharged or impaired by confirmation or consummation of the Plan, but shall survive unaffected by the reorganization contemplated by the Plan and shall be performed and honored by Reorganized Frank's regardless of such confirmation, consummation, and reorganization. See Plan § 7.04.

4. Objections to Claims.

The Bankruptcy Court fixed June 26, 2001 as the last date for filing Claims against the Debtors (the "Filing Deadline"). Unless otherwise ordered by the Bankruptcy Court, all objections to Claims must be filed with the Bankruptcy Court and served on the applicable claimant on or before one hundred (180) days after the later of the Effective Date and the date a Claim is filed and served upon the Debtors' attorneys.

5. Limitations on Liability Regarding Chapter 11 Activities.

Under section 7.05 of the Plan, none of the Debtors, the Committee or Kimco, or any of their respective officers, directors, managers, employees, members (including any *ex officio* members) or agents (each acting in such capacity), nor any professional Persons employed by any of them will have or incur any liability to any Person for any action taken or omitted to be taken in connection with or related to the formulation, preparation, dissemination, implementation, confirmation, or consummation of the Plan, the Disclosure Statement, any contract, release, or other agreement or document created or entered into, or any other action taken or omitted to be taken in connection with the Plan or the Chapter 11 Cases, and all Claims based upon or arising out of such actions or omissions will be forever waived and released; *provided, however*, that section 7.05 of the Plan will have no effect on the liability of any entity that otherwise would result from any action or omission to the extent that such action or omission is determined in a Final Order to have constituted willful misconduct.

D. Executory Contracts and Unexpired Leases

1. Rejection.

Leases and Contracts to be Rejected. On the Confirmation Date, but subject to the occurrence of the Effective Date, each Debtor, pursuant to section 365 of the Bankruptcy Code, shall reject all of its Executory Contracts except those that: (i) are the subject of motions to assume or reject pending on the Confirmation Date; (ii) were assumed before the Confirmation Date; (iii) are listed on Schedule 6.02 to the Plan; (iv) become the subject of a dispute over the amount or manner of cure and for which the relevant Debtor or the Reorganized Debtors, as the case may be, makes a motion, at any time, to reject such contract or lease based upon the existence of such dispute; or (v) are agreements, obligations, security interests, or similar undertakings that the Debtors list on schedule 3.04 to the Plan as a Secured Claim of the Debtors, but the Bankruptcy Court later determines are subject to assumption or rejection; *provided, however*, that the Debtors shall not be required to assume or reject any executory contract or unexpired lease with any party that is a debtor under the Bankruptcy Code unless and until such contract or lease has been assumed or rejected by such other party.

Deadline to File Rejection Damage Claims. Each Person who is a party to a contract or lease rejected under the Plan must file, no later than thirty (30) days after the Confirmation Date, a proof of Claim for damages alleged to arise from the rejection of the applicable contract or lease or be forever barred from filing a Claim or sharing in distributions under the Plan, related to such alleged rejection damages.

2. Assumption.

Leases and Contracts to be Assumed. Annexed to the Plan as Schedule 6.02 is a list of the Executory Contracts deemed to be assumed by the Debtors under the Plan as of the Confirmation Date (but subject to the occurrence of the Effective Date) pursuant to section 365 of the Bankruptcy Code, and the cure amounts necessary for such assumptions.

Deadline to Object to Cure Amounts. If prior to the Confirmation Date or such other date as the Bankruptcy Court may fix, a party to such an Executory Contract listed on Schedule 6.02 to the Plan fails to: (i) file with the Bankruptcy Court and (ii) serve upon the attorneys for the Debtors an objection to the applicable cure amount listed on such Schedule, then such party shall be forever barred from asserting any additional or other amounts against the Debtors respecting such cure amount.

Method of Cure. At the election of Reorganized Frank's, any monetary defaults under each Executory Contract to be assumed under this Plan shall be satisfied pursuant to section 365(b)(1) of the Bankruptcy Code, in one of the following ways: (a) by payment of the cure amount set forth in Schedule 6.02 of the Plan, or as otherwise determined by the Bankruptcy Court, in Cash within thirty (30) days after the Effective Date or such longer period ordered by the Bankruptcy Court; or (b) on such other terms as may be agreed to by the parties to such executory contract or unexpired lease. If a dispute occurs regarding: (x) the cure amount; (y) the ability of the applicable Debtor to provide adequate assurance of future performance under the contract or lease to be assumed; or (z) any other matter pertaining to assumption, then the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry

of a Final Order resolving the dispute and approving assumption. Notwithstanding anything in the Plan to the contrary, the Debtors shall retain their right to reject any executory contract or unexpired lease that is subject to a dispute concerning amounts necessary to cure any defaults, until thirty days following entry of a Final Order establishing the cure amount.

E. Conditions

1. Conditions to Confirmation.

Except as provided under section 8.03 of the Plan, the following are conditions precedent to confirmation of the Plan:

- a. The Bankruptcy Court shall have entered the Confirmation Order.

2. Conditions to Effective Date.

Except as provided under section 8.03 of the Plan, the Plan may not be consummated unless each of the conditions set forth below has been satisfied:

- a. The Confirmation Order shall have been entered and not be the subject of any judicial stay; and
- b. All instruments and documents required in connection with the Exit Facility shall have been executed and the funding for borrowings thereunder will be available on or before the Effective Date.

3. Waiver of Conditions to Confirmation and Effective Date.

- a. Other than the requirements set forth in sections 8.01(a) and 8.02(a) of the Plan, each of the conditions to confirmation of the Plan or the occurrence of the Effective Date may be waived in whole or part by the Debtors in their sole discretion, without notice and a hearing.
- b. Any such waiver(s) shall not affect the relevant Debtors' benefits under the "mootness doctrine." The failure to satisfy or waive any condition may be asserted by any Debtor, regardless of the circumstances giving rise to the failure of such condition to be satisfied (including, without limitation, any act, action, failure to act, or inaction by any of the Debtors). The failure of a Debtor to exercise any of the foregoing rights shall not be deemed a waiver of any other rights and each such right shall be deemed an ongoing right that may be asserted or waived (as set forth herein) at any time or from time to time.

- c. To be effective, any such waiver(s) must be in writing and filed with the Bankruptcy Court.

F. Administrative Provisions

1. **Retention of Jurisdiction.**

Notwithstanding confirmation of the Plan or occurrence of the Effective Date, the Bankruptcy Court will retain jurisdiction over the Chapter 11 Cases after the Effective Date as specified in the Plan.

2. **Plan Amendments.**

The Debtors reserve the right to modify the Plan at any time prior to the entry of the Confirmation Order.

3. **Continuation of Injunctions and Stays.**

Unless otherwise provided in the Plan, the Confirmation Order, or any other order of the Bankruptcy Court, all injunctions or stays ordered in the Chapter 11 Cases, pursuant to section 105 of the Bankruptcy Code or otherwise, and extant on the Confirmation Date, will remain in full force and effect unless or until subsequently modified or terminated.

ARTICLE V.

PLAN ACCEPTANCE AND CONFIRMATION

A. Confirmation of the Plan

Confirmation of the Plan requires satisfaction of section 1129 of the Bankruptcy Code. Among other things, section 1129 requires that: (1) each class of impaired Claims accepts the Plan or be subject to a “cramdown”; (2) the Plan be in the “best interests” of any dissenting creditor or equity holder; and (3) the Plan be feasible. Each of these requirements is addressed below.

B. Voting Requirements

1. **Acceptance.**

Each impaired class of Claims must accept the Plan or be subject to a “cramdown.” A class is impaired under a plan unless, under the Plan: (a) the applicable creditor’s legal, equitable, and contractual rights are left unaltered and there has been no default respecting the applicable claim or interest (other than under a bankruptcy or financial condition clause); or (b) all defaults are cured, maturity dates are reinstated, the party is compensated for damages caused by the default (such as by paying reasonable attorneys’ fees and collection costs) and the party’s legal, equitable and contractual rights are left unaltered.

An unimpaired class is conclusively presumed to have accepted the Plan. The unimpaired classes under the Plan are classes 1, 2, 4, 5 and 6.

An impaired class that receives no distribution is automatically deemed to have rejected the Plan. The Plan does not contain any classes that fall within this category.

Votes on the Plan, therefore, only are being solicited from impaired classes that would receive or retain distributions or property under the Plan. Classes 3, 7 and 8 are the only such impaired Classes.

An impaired class of Claims has accepted a plan if, of those voting, the holders of two thirds (2/3) in dollar amount, and more than one-half (1/2) in number, of Claims authorized to vote accept. The Debtors believe the Plan should be accepted by all voting classes.

2. Deadline.

To be counted, your ballot must be received by 5:00 p.m., Eastern Daylight Savings Time, on April 19, 2002, at the address set forth on the enclosed self-addressed envelope.

3. Eligibility.

If you hold claims in more than one class, you may receive more than one ballot. The delivery of ballots does not constitute an admission by the Debtors that the recipients of such ballots hold Claims that have been allowed for distribution or voting purposes. The Debtors reserve their right to object to any Claim.

Pursuant to an order, dated March 12, 2002, the Bankruptcy Court established the following rules for allowance of Claims for purposes of voting on the Plan:

1. Undisputed Filed Claims. With respect to a liquidated, non-contingent Claim as to which a proof of claim has been timely filed and as to which an objection has not been filed at least fifteen days prior to the end of the period fixed by the Court for voting on the Plan (the "Voting Period"), the amount and classification of such Claim shall be that specified in such proof of claim as reflected in the records of Bankruptcy Services, LLC ("BSI"), as agent for the Clerk of the Court (the "Clerk"), subject to any applicable limitations set forth below.
2. Disputed Filed Claims. With respect to a Claim that is the subject of an objection filed at least fifteen days prior to the end of the Voting Period, such Claim will be disallowed provisionally for voting purposes, except to the extent and in the manner that: (i) the Debtors agree the Claim should be allowed in the Debtors'

objection to such Claim; or (ii) such Claim is allowed temporarily for voting purposes in accordance with Bankruptcy Rule 3018.

3. Claims Estimated for Voting Purposes. With respect to a Claim that has been estimated or otherwise allowed for voting purposes by order of the Court, the amount and classification of such Claim will be that set by the Court.
4. Wholly Unliquidated Claims. A Claim recorded in the Schedules or in the Clerk's records as wholly unliquidated, contingent and/or undetermined will be accorded one vote valued at one dollar for purposes of section 1126(c) of the Bankruptcy Code, unless the Claim is disputed as set forth in (c) above.
5. Partially Unliquidated Claims. With respect to a Claim that is unliquidated, contingent and/or undetermined in part, the holder of the Claim will be entitled to vote that portion of the Claim that is liquidated, non-contingent and undisputed in the liquidated, non-contingent and undisputed amount, subject to any limitations set forth herein and unless otherwise ordered by the Court.
6. Late Claims. With respect to a Claim as to which a proof of claim has not been timely filed (i.e., was filed after the deadline set by the Court for the filing of a claim of that type), the voting amount of such Claim (subject to any applicable limitations set forth below) will be equal to: (i) the amount listed, if any, in respect of such Claim in the Debtors' Schedules of Assets and Liabilities filed with the Court (as such schedules may be amended from time to time, the "Schedules"), to the extent such Claim is not listed as contingent, unliquidated, undetermined or disputed; or (ii) if not so listed, then the Claim respecting such proof of claim will be disallowed provisionally for voting purposes.
7. Claims Limited to Setoffs. With respect to a Claim as to which the holder has agreed that the Claim may be asserted solely for purposes of setoff against claims the Debtors may have against such holder and not as an affirmative Claim against the Debtors' estates, such Claim will be disallowed provisionally for voting purposes.
8. Duplicate Claims. A creditor will not be entitled to vote its Claim to the extent such Claim duplicates or has been superseded by another Claim of such creditor.
9. Undisputed Scheduled Claims. Respecting a Claim that appears on the Debtors' Schedules as undisputed, noncontingent, and liquidated, and as to which no objection has been filed at least

twenty days prior to the end of the Voting Period, the amount and classification of such Claim shall be that specified in the Schedules.

4. Tabulation.

The Bankruptcy Court also established the following rules and standards for the tabulation of ballots of creditors:

- (a) For the purpose of voting on the Plan, BSI, as balloting agent, will be deemed to be in constructive receipt of any ballot timely delivered to any address that BSI (or its authorized agent) designates for the receipt of ballots cast on the Plan;
- (b) Any ballot received by BSI after the end of the Voting Period shall not be counted;
- (c) Pursuant to Bankruptcy Rule 3018(a), whenever a holder of a claim submits more than one ballot voting the same claim prior to the end of the Voting Period, the first such ballot sent and received shall count unless such holder has sufficient cause within the meaning of Bankruptcy Rule 3018(a) to submit, or the Debtors consent to the submission of, a superseding ballot;
- (d) If a holder of a Claim casts simultaneous duplicative ballots voted inconsistently, then such ballots shall be counted as one vote accepting the Plan;
- (e) The authority of the signatory of each ballot to complete and execute the ballot shall be presumed; any ballot that is not signed shall not be counted;
- (f) Any ballot received by BSI by telecopier, facsimile or other electronic communication shall not be counted;
- (g) A holder of a Claim must vote all of its Claims within a particular class under the Plan either to accept or reject the Plan and may not split its vote; *provided, however*, that a creditor with a partially secured Claim may vote its Class 3 Claim separately from any unsecured deficiency claim in Class 7. Accordingly, a ballot (or multiple ballots with respect to separate Claims within a single class) that partially rejects and partially accepts the Plan, or that indicates both a vote for and against the Plan, will not be counted; and
- (h) Any ballot that is timely received and executed but does not indicate whether the holder of the relevant Claim is voting for or against the Plan shall be counted as a vote for the Plan.

5. Cramdown.

Generally. If one class of impaired Claims (without counting insiders' votes) accepts a plan or if all classes of Claims are unimpaired, then the Bankruptcy Court may confirm a plan in the absence of acceptances by each class. The procedure used to confirm a plan despite the dissent of a class, commonly known as a "cramdown," is set forth in section 1129(b) of the Bankruptcy Code. A plan may be confirmed under the cramdown provisions if, in addition to satisfying the requirements of section 1129(a) of the Bankruptcy Code other than acceptance by all classes, the plan: (1) "does not discriminate unfairly"; and (2) is "fair and equitable" respecting each class of claims or interests that is impaired under, and has not accepted, the plan.

Under the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have specific meanings. The requirement that a plan not "discriminate unfairly" means that a dissenting class must be treated equally or otherwise fairly respecting other classes of equal rank and that no claim or interest will receive more than 100% distribution under the plan. The "fair and equitable" standard, also known as the "absolute priority rule," requires that either a dissenting class will receive full compensation for allowed claims or interests in that class or no junior class will receive or retain any distribution under the plan.

C. Best Interests Test

To confirm the Plan, the Bankruptcy Court must determine that the Plan is in the best interests of all individual dissenting creditors in each impaired class. The "best interests" test requires that the Plan provide each such holder with a recovery having a value at least equal to the value of the distribution each such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. This test is based on liquidation values.

Annexed to the Disclosure Statement as Appendix 2 is a liquidation analysis for the Debtors. The liquidation values are based on the Debtors' estimates and are subject to revision. Annexed to this Disclosure Statement as Appendix 3 is a comparison of the recoveries of impaired creditors under the Plan and in a chapter 7 liquidation.

Due to the numerous uncertainties and time delays associated with liquidation under chapter 7, it is not possible to predict with certainty the outcome of liquidation of the Debtors or the timing of any distribution to creditors. The Debtors, however, project that liquidation under chapter 7 of the Bankruptcy Code would result in no greater distributions than those provided for in the Plan. Indeed, in most instances, the Plan provides for much greater distributions than would be available in a chapter 7 liquidation.

D. Feasibility Requirement

The feasibility test for confirmation of the Plan requires the Bankruptcy Court to determine that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or their

successors, unless such liquidation or financial reorganization is proposed in the Plan. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their respective obligations under the Plan. As part of this analysis, the Debtors have prepared financial projections for the three fiscal years ending January 26, 2003, January 25, 2004 and January 23, 2005. The projections and the material assumptions on which they are based are set forth in Appendix 4 to this Disclosure Statement. Based upon those projections, the Debtors believe the Plan will meet the feasibility requirement of the Bankruptcy Code.

E. Alternatives to the Plan

The Debtors believe the Plan is the best alternative available to the Debtors' creditors, providing such creditors with the earliest and greatest possible values that can be realized on their respective Claims. The alternatives to confirmation are: (i) confirmation of an alternative plan or plans of reorganization; or (ii) liquidation of the Debtors' assets under chapter 7 of the Bankruptcy Code.

1. Alternative Plans.

As the Debtors structured the Plan to maximize values, any alternative plan likely would result in reduced distributions to certain creditors. Moreover, the Debtors have negotiated significant reductions or modifications in certain claims, the result of which will provide significant, additional value to general unsecured creditors, and which would be unavailable to the proponent(s) of an alternative plan. Further, the exit financing arrangements negotiated by the Debtors are critical to a plan and may not be available under an alternative plan. In addition, due to the time required to negotiate, draft and obtain approval of an alternative plan, alternatives to the Plan would lead to delayed distributions to creditors.

2. Liquidation.

The Debtors believe the value of distributions under the Plan will equal or exceed the value of distributions that would be available after liquidation of the Debtors under chapter 7 of the Bankruptcy Code. A liquidation under chapter 7 would require the Bankruptcy Court to appoint a trustee to conduct the liquidation of the Debtors. Such a trustee would have limited historical experience or knowledge of these Chapter 11 Cases or of the Debtors' records, assets or former businesses. The fees charged by a chapter 7 trustee and any professionals hired by the chapter 7 trustee could impose substantial administrative costs on the Debtors' estates that would not be incurred under the Plan. Also, liquidation would increase substantially the magnitude of claims against the Debtors for items such as severance, lease rejections, etc. Further, there is no assurance when distributions would occur in a chapter 7 liquidation. *See* the discussion above regarding the "Best Interests" test.

Thus, the Debtors believe confirmation of the Plan is preferable to the alternatives because the Plan should maximize value, ensure an expeditious resolution of

these cases, and provide for equitable distributions to the Debtors' creditors and the equity holders.

ARTICLE VI.

CONCLUSION

THE DEBTORS URGE ALL HOLDERS OF CLAIMS IN CLASSES ENTITLED TO VOTE TO ACCEPT THE PLAN BY RETURNING THEIR BALLOTS SO THAT THEY ARE RECEIVED BY FRANK'S BALLOTING CENTER, c/o BANKRUPTCY SERVICES LLC., 70 EAST 55TH STREET, NEW YORK, NEW YORK 10022, BY 5:00 P.M. (EASTERN DAYLIGHT SAVINGS TIME) ON APRIL 19, 2002.

Dated: March 13, 2002

FRANK'S NURSERY & CRAFTS,
INC. & FNC HOLDINGS, INC.,
Debtors and Debtors in Possession

By: 

Officer

Chief Executive Officer
Steven S. Fishman

APPENDICES TO DISCLOSURE STATEMENT

Appendix 1 Debtors' Plan of Reorganization

Schedule 1.51	New Stock Option Plan
Schedule 3.01(d)	Administrative Reclamation Claims
Schedule 3.03	Resolution of Allowed Amounts for Class 3 (Mortgagee) Claims
Schedule 3.04	Resolution of Allowed Amounts for Class 4 (Other Secured) Claims
Schedule 4.05(a)	Real Estate Facility Commitment Letter
Schedule 4.05(b)	Inventory & Receivables Facility Commitment Letter
Schedule 6.02	Schedule of Executory Contracts and Unexpired Leases Assumed Under the Plan and Related Cure Amounts

Appendix 2 Liquidation Analysis

Appendix 3 Comparison of Estimated Recoveries under the Chapter 11 Plan vs. a Chapter 7 Liquidation

Appendix 4 Projected Financial Information (Fiscal Years ending January 26, 2003, January 25, 2004, January 23, 2005).

Appendix 5 Lump Sum Distribution Commitment Letter

APPENDIX 1

**Debtors' First Amended Joint
Plan of Reorganization**

THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND

Baltimore Division

In re:	*	Case Nos. 01-52415 and 01-52416
	*	(Chapter 11)
FRANK'S NURSERY & CRAFTS, INC., et al.	*	Jointly Administered
	*	
Debtors	*	
* * *	*	

DEBTORS' FIRST AMENDED JOINT PLAN OF REORGANIZATION

Dated: March 13, 2002

WILLKIE FARR & GALLAGHER
787 Seventh Avenue
New York, NY 10019
(212) 728-8000

WHITEFORD, TAYLOR & PRESTON L.L.P.
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Frank's Nursery & Crafts, Inc. *et al.*

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Schedule 4.05(b)	Inventory & Receivables Facility Commitment Letter	
Schedule 6.02	Schedule of Executory Contracts and Unexpired Leases Assumed Under the Plan and Related Cure Amounts	

THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MARYLAND
Baltimore Division

In re:

*

FRANK'S NURSERY & CRAFTS, INC., et al.

*

Case Nos. 01-52415 and 01-52416
(Chapter 11)

Debtors

*

Jointly Administered

* * * * *

DEBTORS' FIRST AMENDED JOINT PLAN OF REORGANIZATION

Frank's Nursery & Crafts, Inc. and FNC Holdings, Inc., as debtors and debtors in possession, in their procedurally consolidated chapter 11 cases, hereby propose this Debtors' First Amended Joint Plan of Reorganization:

ARTICLE I.

DEFINITIONS

As used in the Plan, the following terms have the respective meanings specified below (such meaning to be equally applicable to both the singular and the plural, and masculine and feminine forms of the terms defined):

1.01. "Administrative Claim" means an unsecured Claim for payment of costs or expenses of administration specified in sections 503(b) and 507(a)(1) of the Bankruptcy Code.

1.02. "Administrative Reclamation Claim" means that portion of a reclamation Claim eligible for Administrative Claim status pursuant to section 546(c) of the Bankruptcy Code.

1.03. "Allowed Claim" means a Claim: (a) either (i) proof of which has been timely filed with the Bankruptcy Court or has been deemed timely filed by a Final Order; or (ii) if not so filed, scheduled by a Debtor other than as disputed, contingent or unliquidated; and (b)

allowed by a Final Order, by this Plan, or because no party in interest timely has filed an objection, filed a motion to equitably subordinate, or otherwise sought to limit recovery on such Claim. An Allowed Claim shall not include interest accruing after the Petition Date on the amount of any Claim except as expressly provided herein.

1.04. “*Allowed [Class Designation/Type] Claim*” means an Allowed Claim in a specified class or of a specified type.

1.05. “*Ascribed Value*” means an ascribed value of \$1.15 per share of New Common Stock, representing \$23 million divided by the 20 million shares of New Common Stock to be issued to Class 7 under the Plan.

1.06. “*Avoidance Action*” means an action of the Debtors pursuant to sections 544, 545, 547, 548, 549, 550, or 553 of the Bankruptcy Code.

1.07. “*Bankruptcy Code*” means sections 101, et seq. of title 11 of the United States Code, as now in effect or hereafter amended.

1.08. “*Bankruptcy Court*” means the United States Bankruptcy Court for the District of Maryland or any other court or adjunct thereof exercising competent jurisdiction.

1.09. “*Bankruptcy Rules*” means the Federal Rules of Bankruptcy Procedure, as amended from time to time, and the Local Rules of the Bankruptcy Court, as applicable to the Chapter 11 Cases.

1.10. “*Bar Date*” means the date established by the Bankruptcy Court as the last date for filing proofs of pre-Petition Date Claims against the Debtors.

1.11. “*Business Day*” means any day other than Saturday, Sunday or “legal holiday” as such term is defined in Bankruptcy Rule 9006(a).

1.12. “*Cash*” means cash and cash equivalents, including but not limited to bank deposits, checks, and other similar items.

1.13. “*Chapter 11 Cases*” means, collectively, the cases under chapter 11 of the Bankruptcy Code concerning the Debtors, entitled Frank’s Nursery & Crafts, *et al.*, Case Nos. 01-52415 and 01-52416 (Jointly Administered).

1.14. “*Claim*” means a claim against the Debtors, as such term is defined in section 101(5) of the Bankruptcy Code.

1.15. “*Class*” means a group of Claims or Interests as classified under this Plan.

1.16. “*Committee*” means the Official Committee of Unsecured Creditors appointed in the Chapter 11 Cases by the United States Trustee and reconstituted from time to time.

1.17. “*Confirmation Date*” means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the Bankruptcy Court’s docket.

1.18. “*Confirmation Hearing*” means the hearing pursuant to which the Bankruptcy Court enters the Confirmation Order.

1.19. “*Confirmation Order*” means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

1.20. “*Creditor*” means a Person that holds a Claim against a Debtor.

1.21. “*Debtors*” means, unless otherwise indicated, Frank’s and FNC (Each of the Debtors is individually referred to herein as a “Debtor.”)

1.22. “*DIP Facility*” means that certain Loan and Security Agreement, dated February 19, 2001, and the related loan, financing, security agreements and mortgages and

fee letter by and among the Debtors, Wells Fargo, and the DIP Lenders, as may be amended from time to time.

1.23. “*DIP Lenders*” means the syndicate of financial institutions defined as the “Lenders” in the DIP Facility.

1.24. “*DIP Lender Claims*” mean the Claims of Wells Fargo, as agent for the DIP Lenders, under the DIP Facility.

1.25. “*Disclosure Statement*” means the disclosure statement respecting the Plan approved by the Bankruptcy Court pursuant to section 1125 of the Bankruptcy Code.

1.26. “*Disputed Claim*” means a Claim (or portion thereof) as to which either: (a) an objection has been timely filed, and such objection has not been: (x) withdrawn, (y) overruled or denied in whole by a Final Order; (b) before the deadline for an objection to the Claim to be filed, the amount of the Claim specified in the applicable proof of Claim exceeds the amount of any corresponding Claim scheduled by the Debtors in the Schedules as being neither disputed nor contingent or no such amount is scheduled as being neither disputed nor contingent; (c) there is a dispute as to classification of the Claim; or (d) the Claim is unliquidated.

1.27. “*Distribution*” means the distribution in accordance with this Plan of Cash or other property, as the case may be.

1.28. “*Distribution Address*” means the last known address of a Creditor, whether derived from the Schedules, a proof of claim filed with the Court or other written notification to the Debtors as to where a distribution under a Plan is to be sent.

1.29. “*Distribution Date*” means any date that is: (a) the Initial Distribution Date; (b) any Interim Distribution Date; or (c) the Final Distribution Date.

1.30. “*Effective Date*” means a date to be determined by the Debtors that will be no later than 30 days after the later of: (a) the date each of the conditions to the Effective Date has been satisfied or waived, provided no stay of the Confirmation Order is then in effect; or (b) the date any stay of the Confirmation Order is vacated or any appeal, rehearing, remand, or petition for certiorari regarding the Confirmation Order is resolved by Final Order in a manner that does not reverse or materially modify the Confirmation Order.

1.31. “*Executory Contract*” means any executory contract or unexpired lease within the meaning of section 365 of the Bankruptcy Code in effect between a Debtor and other Person as of the Petition Date.

1.32. “*Exit Facilities*” means two post-Effective Date borrowing facilities for Reorganized Frank’s to be in an original aggregate principal amount of \$80 million, consisting of a \$30 million facility to be secured by real estate and a \$50 million facility to be secured by inventory and receivables.

1.33. “*Face Amount*” means respecting a Claim: (i) if the holder of such Claim has not filed a proof of Claim by the applicable bar date and there is no Final Order fixing such Claim, the amount of such Claim that is listed in the Schedules as undisputed, noncontingent and liquidated or, if no amount is listed, zero (\$0) dollars; (ii) if the holder of such Claim has filed a proof of Claim by the applicable bar date, the liquidated amount as stated in such proof of Claim, or, if no liquidated amount is listed, then zero (\$0) dollars unless such amount is allowed or estimated by Final Order; (iii) an amount fixed or estimated by a Final Order; or (iv) in all other cases, zero (\$0) dollars.

1.34. “*Final Distribution Date*” means:

(a) with respect to each Claim that is not a Class 7 Claim as well as Class 7 Claims subject to the Lump Sum Election, the first Business Day twenty (20) days (or such longer period as may be reasonably determined by Reorganized Frank's) after the later of: (i) the Effective Date; and (ii) the date that such Claim becomes an Allowed Claim; and

(b) with respect to Class 7 Claims, the first Business Day twenty (20) days (or such longer period as may be reasonably determined by Reorganized Frank's) after the date on which all Disputed Claims in Class 7 have been resolved by Final Order.

1.35. "*Final Order*" means an order or judgment, as entered on the docket of the applicable court, that has not been reversed, modified or amended, is not stayed, and as to which the time to appeal from or to seek review or rehearing or petition for certiorari of has expired without an appeal or application for review or rehearing or petition having been filed.

1.36. "*FNC*" means FNC Holdings, Inc., one of the Debtors.

1.37. "*Frank's*" means Frank's Nursery & Crafts, Inc., one of the Debtors.

1.38. "*General Unsecured Claim*" means any Claim against the Debtors, other than a DIP Lender Claim, Mortgagee Claim, Secured Claim, Administrative Claim, Priority Claim, or Priority Tax Claim.

1.39. "*Impaired*" means any Claim that is impaired within the meaning of section 1124 of the Bankruptcy Code.

1.40. "*Indenture*" means the Old Senior Subordinated Notes Indenture.

1.41. "*Indenture Trustee*" means Bankers Trust Company or its successor, as trustee under the Indenture.

1.42. "*Initial Distribution Date*" means, with respect to Allowed Claims in Class 7, the first Business Day twenty (20) days after the Effective Date, or such longer period as

may be reasonably determined by Reorganized Frank's, but in no event later than one-hundred-eighty (180) days after the Effective Date.

1.43. "*Interest*" means an equity interest in FNC.

1.44. "*Interim Distribution Date*" means any date after the Initial Distribution Date on which Reorganized Frank's determines, in its sole discretion, that an interim distribution should be made to Class 7 in light of, *inter alia*, reductions in Disputed Claims and the administrative costs of such distribution.

1.45. "*Kimco*" means Kimco Realty Corporation or any subsidiary, affiliate, or designee.

1.46. "*Lien*" means any conveyance in trust, assignment or pledge of, mortgage or lien on, security interest in, or charge or encumbrance of any kind against, any property of any Debtor.

1.47. "*Lump Sum Election*" means the alternative for Class 7 Creditors under section 3.07 hereof to receive a single lump sum cash distribution instead of distributions of New Common Stock under the Plan.

1.48. "*Mortgagee Claims*" means the respective Claims of the parties listed on Schedule 3.03 hereto, as and to the extent secured by valid Liens against real property of the Debtors.

1.49. "*Mortgagee Loan Documents*" means the respective agreements and instruments creating or evidencing the Mortgagee Claims.

1.50. "*Mortgagees*" means the respective holders of Mortgagee Claims (each individually referred to as a "Mortgagee").

1.51. "*New Common Stock*" means the shares of authorized common stock of Reorganized Frank's to be issued under the Plan.

1.52. "*New Stock Option Plan*" means a stock option plan, in substantially the form annexed as Schedule 1.52 hereto, providing for the issuance to management of options to purchase certain shares of New Common Stock.

1.53. "*Old Senior Subordinated Notes*" means the 10¼% Senior Subordinated Notes due 2008, issued by Frank's.

1.54. "*Person*" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, an estate, a trust, an unincorporated organization, or a government or any subdivision thereof, or any other entity.

1.55. "*Petition Date*" respecting each Debtor means February 19, 2001, the date on which the Chapter 11 Cases were commenced.

1.56. "*Plan*" means this plan under chapter 11 of the Bankruptcy Code (including all schedules annexed hereto), as the same may be altered, amended, or modified from time to time (after the Confirmation Date, such amendments or modifications being effective only if approved by order of the Bankruptcy Court).

1.57. "*Priority Claim*" means any Claim to the extent entitled to priority in payment pursuant to section 507(a) of the Bankruptcy Code, other than an Administrative Claim, or Priority Tax Claim.

1.58. "*Priority Tax Claim*" means any Claim to the extent entitled to priority in payment under section 507(a)(8) of the Bankruptcy Code.

1.59. "*Ratable Share*" means a number (expressed as a percentage), calculated as of the date ten (10) Business Days (or such other fixed period reasonably

determined by Reorganized Frank's) prior to each Distribution Date equal to the proportion that an Allowed Claim in a Class bears to the aggregate amount of Allowed Claims in such Class as of the date of determination. Solely for the purpose of calculating the amount to be distributed to holders of Allowed Claims in Class 7 and reserved for the holders of Disputed Claims on a Distribution Date, Reorganized Frank's shall treat each Disputed Class 7 Claim as an Allowed Claim in the Face Amount of such Disputed Claim, unless otherwise ordered by the Bankruptcy Court.

1.60. "*Record Date*" means the date established in the Confirmation Order for determining the identity of holders of Allowed Claims and Interests entitled to Distributions under the Plan.

1.61. "*Rejection Claim*" means the Claim, if any, of parties other than any of the Debtors to executory contracts or unexpired leases with any of the Debtors that are rejected or deemed rejected pursuant to a Final Order.

1.62. "*Reorganized Frank's*" means the Debtors on and after the Effective Date.

1.63. "*Schedules*" means the schedules, as amended from time to time, of assets and liabilities filed by the Debtors with the Bankruptcy Court in accordance with sections 521 and 1106(a)(2) of the Bankruptcy Code.

1.64. "*Secured Claim*" means any Claim to the extent such claim constitutes a secured Claim pursuant to section 506 or 1111(b) of the Bankruptcy Code.

1.65. "*Securities Act*" means the Securities Act of 1933, as amended.

1.66. "*Unclaimed Property*" means any Cash or other distributable property unclaimed on or after the Effective Date or the date on which an additional Distribution would

have been made in respect of a Claim. Unclaimed Property shall include: (a) checks (and the funds represented thereby) mailed to a Distribution Address and returned as undeliverable without a proper forwarding address; (b) funds for uncashed checks; and (c) checks (and the funds represented thereby) not mailed or delivered because no Distribution Address to mail or deliver such property was available, notwithstanding efforts by the Debtors to locate such address which were commercially reasonable under the circumstances.

1.67. “*Wells Fargo*” means Wells Fargo Retail Finance, LLC, as agent for the DIP Lenders.

ARTICLE II.

CLASSIFICATION OF CLAIMS AND INTERESTS

For purposes of the Plan, Claims are classified as follows:

2.01. “*Class 1 Claims*” shall consist of all Administrative Claims against the Debtors.

2.02. “*Class 2 Claims*” shall consist of the claims of the DIP Lenders under the DIP Facility.

2.03. “*Class 3 Claims*” shall consist of the Mortgagee Claims, with each such Claim secured by different collateral to be deemed a separate subclass.

2.04. “*Class 4 Claims*” shall consist of all Secured Claims against the Debtors that are not Class 2 Claims or Class 3 Claims.

2.05. “*Class 5 Claims*” shall consist of all Priority Tax Claims against the Debtors.

2.06. “*Class 6 Claims*” shall consist of all Priority Claims against the Debtors that are not Priority Tax Claims.

2.07. “*Class 7 Claims*” shall consist of all General Unsecured Claims.

2.08. "Class 8 Interests" shall consist of all Interests.

2.09. *Elimination of Classes.* Any Class of Claims that is not occupied as of the date of the commencement of the Confirmation Hearing by an Allowed Claim or a Claim temporarily Allowed under Rule 3018 of the Bankruptcy Rules shall be deemed deleted from the Plan for purpose of voting on acceptance or rejection of the Plan of any such Class under section 1129(a)(8) of the Bankruptcy Code.

ARTICLE III.

TREATMENT OF CLAIMS AND INTERESTS

Each Allowed Claim or Interest shall receive the treatment specified below for the applicable Class in full settlement of all rights of the holder of such Allowed Claim or Interest; provided, however, that the holder of such Claim or Interest may agree to and receive less favorable treatment.

3.01. Class 1 - Administrative Claims. Class 1 is not Impaired.

(a) Professionals whose compensation is subject to approval of the Bankruptcy Court shall be paid in Cash in the amounts awarded to such professionals by order of the Bankruptcy Court as soon as practicable after such order is entered.

(b) Other Administrative Claims (except for ordinary course claims) shall be paid in Cash in full on the later of the Effective Date and the date such Claims become Allowed Claims.

(c) Ordinary course Administrative Claims will be paid in accordance with the terms and conditions of the particular transaction giving rise to such liabilities.

(d) Schedule 3.01(d) hereto sets forth the holders of valid Administrative Reclamation Claims against the Debtors and the respective amounts of such Claims. These Administrative Reclamation Claims shall be treated as Administrative Claims under the Plan.

No other purported reclamation Claim shall be afforded such treatment unless an Order allowing such claim as an Administrative Reclamation Claim is entered by the Court on or prior to the Confirmation Date. If no such Order is entered, then the purported Claim shall remain in the Class, if any, that it otherwise would belong in the absence of any asserted priority under section 546(c) of the Bankruptcy Code.

3.02. *Class 2 – DIP Lender Claims.* Class 2 is not Impaired. All claims of the DIP Lenders under the DIP Facility shall be Allowed and shall be paid in full, in Cash on the Effective Date; provided, however, that, any claims under the DIP Facility that do not arise until after the Effective Date shall be paid in full in Cash by Reorganized Frank's as soon as practicable after such Claims become Allowed. Without limiting the foregoing, once payments to be made on the Effective Date have been made, the DIP Facility and any agreements or instruments related thereto shall be deemed terminated and the DIP Lenders shall take all reasonable action to confirm the removal of any liens on the properties of the Debtors and their affiliates. On the Effective Date, any outstanding letters of credit issued under the DIP Facility shall be either cash collateralized, replaced or secured by letters of credit issued under the Exit Facility.

3.03. *Class 3 – Mortgagee Claims.* Class 3 is Impaired. For the purposes of the treatment afforded the Mortgagees under the Plan, the Claims set forth on Schedule 3.03 shall each be deemed fully secured and, accordingly, to accurately represent the amount of each Mortgagee Claim as of May 19, 2002. Each Mortgagee Claim shall be reinstated, pursuant to the following terms and conditions:

(a) *Amount.* Principal plus accrued unpaid interest at the non-default rate through the Confirmation Date; provided, however, that as to any Mortgagee Claim as to which

the applicable Mortgagee does not accept the Plan, the Debtors shall have the option, until the Confirmation Date, to seek a determination that such Mortgagee Claim is undersecured. If the Court determines that any such Claim is in fact undersecured, then only the portion of such Mortgagee Claim that is determined to be a Secured Claim shall be entitled to treatment in Class 3 and any unsecured deficiency Claim included in such Mortgagee Claim shall be treated in Class 7.

(b) *Term.* 20 years from the Effective Date.

(c) *Interest Rate.* 6% per annum, payable monthly in arrears; provided, however, that interest accrued after the Confirmation Date but before the Effective Date shall not be due until the end of the calendar month in which the Effective Date occurs.

(d) *Amortization.* 20 years, payable monthly in arrears.

(e) *Prepayment.* The Claim shall be prepayable without penalty or premium in whole or in part at any time prior to maturity with at least thirty (30) days advance notice.

(f) *Escrows/Reserves.* To the extent that a balance remains in any tax or insurance escrows or any other escrows or reserves otherwise required to be maintained pursuant to the relevant Mortgagee Loan Documents, the amount in such escrows and/or reserves shall be applied to the first payments due under the Plan to the applicable Mortgagee and Reorganized Frank's no longer shall be required to maintain such escrows or reserves.

(g) Any guarantees by or joint obligations of the Debtors in respect of the Mortgagee Claims pursuant to the Mortgagee Loan Documents shall be subject to the substantive consolidation effected by Section 4.01 of this Plan and, accordingly, shall merge into a single Claim against Reorganized Frank's.

(h) Any representations, warranties, or covenants relating to the financial condition, capitalization, or operations of the Debtors contained in the Mortgagee Loan Documents shall be of no force or effect.

(i) As a condition to the receipt of any payments by the Mortgagees on account of the Mortgagee Claims pursuant to this Plan, the Mortgagees shall be required to execute any agreements, amendments or supplements or to supply such information as the Debtors determine to be reasonably necessary or appropriate to evidence the modifications to the Mortgagee Loan Documents effected by this Plan or to determine the amounts in any escrow or reserve funds required to be maintained pursuant to the relevant Mortgagee Loan Documents.

(j) Except as modified pursuant to this Plan, the terms and conditions of the Loan Documents shall continue to govern the parties' obligations thereunder.

3.04. Class 4 - All Other Secured Claims. Class 4 is not Impaired.

(a) *Election of Alternative Treatments.* At the election of Reorganized Frank's, on or before the later of the Effective Date and ten (10) Business Days after the date on which a Class 4 Claim becomes an Allowed Claim, such Claim shall be paid in full by either:

(1) reinstating the Claim, that is, leaving unaltered the legal, equitable, and contractual rights respecting such Claim in accordance with section 1124 of the Bankruptcy Code, including: (A) curing all pre- and postpetition defaults other than defaults relating to the insolvency or financial condition of the relevant Debtor or its status as a debtor under the Bankruptcy Code; and (B) reinstating the maturity date of the Claim;

(2) paying such Claim in full, in Cash, in an amount equal to such Allowed Class 4 Claim on the Effective Date or as soon as reasonably practicable thereafter; or

(3) transferring title to the property securing such Allowed Class 4 Claim to the holder of such Claim. Within thirty (30) days after mailing by the Debtors or Reorganized Frank's of notice of the election of this option (iii), the holder of an Allowed Class 4 Claim shall be entitled to amend in writing of file a proof of claim for any unsecured deficiency Claim respecting such Claim (to the extent such holder has recourse to a

Debtor respecting such Class 4 Claim, and provided the holder has timely filed a proof of claim respecting such Class 4 Claim or whose Class 4 Claim was listed in the Schedules as nondisputed, noncontingent, and liquidated). To the extent, if any, allowed, such deficiency claim shall be treated in Class 7.

(b) *Resolution of Allowed Amounts.* Schedule 3.04 to this Plan lists: (i) each Class 4 Claim; (ii) the amount in which each such Claim is proposed to be allowed; and (iii) the additional cure amount, if any, proposed to be paid if the Claim is to be reinstated. If prior to the Confirmation Date or such other date as the Bankruptcy Court may fix, a holder of a Class 4 Claim fails to file with the Bankruptcy Court and serve on the attorneys for the Debtors an objection to the amount(s) set forth in such Schedule 3.04 respecting such Claim, then such holder shall be forever barred from asserting any Claims against the Debtors exceeding the proposed Allowed amount of such Claim, and Reorganized Frank's shall be entitled to rely upon such amount(s) in selecting the treatment for the Claim under this section. If a timely objection to the amounts listed on Schedule 3.04 to the Plan is served and filed by a holder of a Class 4 Claim, then such holder's Claim shall be deemed to be a Disputed Claim to be resolved in accordance with the Plan.

3.05. *Class 5 - Priority Tax Claims.* Class 5 is not Impaired. On the later of the Effective Date or as soon as reasonably practicable thereafter and ten (10) Business Days after the date on which a Class 5 Claim becomes an Allowed Claim, such Claim shall be paid in full, in Cash; provided, however, that the Debtors shall have the option, exercisable prior to the Effective Date, to pay any Priority Tax Claim over a period not longer than six (6) years from the date of assessment of the applicable tax, with interest on the unpaid portion payable annually in arrears at the rate of interest ordered by the Bankruptcy Court (or agreed to by the holder of the Claim and the Debtors).

3.06. *Class 6 - All Other Priority Claims.* Class 6 is not Impaired. On the later of the Effective Date or as soon as reasonably practicable thereafter and ten (10) Business Days after the date on which a Class 6 Claim becomes an Allowed Claim, such Claim shall be paid in full, in Cash.

3.07. *Class 7 - General Unsecured Claims.* Class 7 is Impaired.

(a) Distributions. On the later of: (i) the Initial Distribution Date; and (ii) ten (10) Business Days after the date on which a Class 7 Claim becomes an Allowed Claim, each holder of an Allowed Class 7 Claim shall receive its Ratable Share of 20 million shares of the New Common Stock; provided, however, that Allowed Class 7 Claims subject to the Lump Sum Election shall instead receive the applicable cash payment on such date.

(b) Lump Sum Cash Payment Election. Subject to the occurrence of the Effective Date, each holder of a Class 7 Claim may elect, on such holder's ballot for voting on the Plan, to receive a single lump sum cash payment of 10¢ per dollar of Allowed Claim in lieu of New Common Stock and in full satisfaction of any and all distributions to be made under the Plan for such Class 7 Claim. The Lump Sum Election shall apply to such holder's entire Class 7 Claim. Each holder of an Allowed Class 7 Claim of \$10,000 or less that is not an Old Senior Subordinated Notes Claim shall be deemed to have made the Lump Sum Election.

(c) Funding of Lump Sum Election Payments. Payments made to satisfy Claims subject to the Lump Sum Election shall be funded by Kimco, in an amount of up to \$5 million (or such higher amount as Kimco may elect in writing at least 10 days prior to the Effective Date in Kimco's sole and absolute discretion), less any amount paid to purchase shares of New Common Stock from the Indenture Trustee pursuant to section 5.01(c) hereof. On or before the Effective Date, Kimco shall post a \$5 million letter of credit to secure its obligation to

fund the Lump Sum Election. In the alternative, at Kimco's option, Kimco may deposit \$5 million into an escrow account to fund distributions on Claims subject to the Lump Sum Election. To the extent such amount is not sufficient to satisfy all Allowed Class 7 Claims subject to the election, all such Allowed Claims shall be satisfied through the Lump Sum Election in the order of lowest to highest amount, with the lowest amount being paid first. The New Common Stock allocable to any Claim subject to the Lump Sum Election shall be delivered to Kimco, as the funder of such payments. If a holder of a disputed Class 7 Claim makes, or is deemed to have made, the Lump Sum Election, then the lump sum payment allocable to such entire Claim shall be held in the escrow pending resolution of such Claim, with any such reserve allocable to the ultimately disallowed portion of such Claim to be made available to other Allowed Claims subject to the Lump Sum Election. To the extent, if any, the \$5 million deposited in escrow to fund the Lump Sum Elections is not exhausted, such funds shall be returned to Kimco. All interest accrued in the escrow account shall be paid to Reorganized Frank's at the end of each month.

(d) Subordinated Claims. Any Claim subordinated as provided in sections 510(b) or (c) of the Bankruptcy Code or otherwise to Class 7 Claims shall be provisionally in Class 7 but receive no distributions therefrom.

3.08. *Class 8 - Interests*. Class 8 is impaired. On the Initial Distribution Date, each holder of a Class 8 Interest shall receive its Ratable Share of four-year warrants representing the right to purchase 913,044 shares of New Common Stock, at a price of \$1.38 per share.

ARTICLE IV.

MEANS OF IMPLEMENTATION OF THE PLAN

4.01. *Substantive Consolidation.* On the Effective Date, for the purposes of the Chapter 11 Cases both Debtors shall be merged into Frank's to become Reorganized Frank's, and the assets and liabilities of each Debtor shall, as a result, become assets and liabilities of Reorganized Frank's alone. The Plan contemplates and is predicated upon the substantive consolidation of both Debtors into Reorganized Frank's solely for purposes of the Chapter 11 Cases and all actions respecting confirmation and consummation of the Plan. On the Confirmation Date or such other date as may be set by a Final Order of the Court, but subject to the occurrence of the Effective Date: (i) all Claims between the Debtors shall be eliminated; (ii) all assets and liabilities of the Debtors shall be merged or treated as though they were merged and vest in Reorganized Frank's (such liabilities to be satisfied in accordance with and subject to the terms of the Plan); (iii) all cross-corporate guaranties of the Debtors shall be eliminated and any obligation of any Debtor and all guaranties thereof executed by one or both Debtors shall be deemed to be a single obligation of the consolidated Debtors; (iv) any Claims filed or to be filed in connection with any such obligation or such guaranties shall be deemed one Claim against the consolidated Debtors; and (v) each and every Claim filed or to be filed in the individual Chapter 11 Case of any of the Debtors shall be deemed filed against the consolidated Debtors and shall be deemed joint and several obligations of both Debtors.

4.02. *Non-voting Stock.* The certificate of incorporation and by-laws of Reorganized Frank's shall, *inter alia*, prohibit the issuance of nonvoting stock to the extent required by section 1123(a) of the Bankruptcy Code.

4.03. *Exemption From Securities Laws.* The Confirmation Order will provide that the offer and sale of the New Common Stock that is issued pursuant to the Plan is

exempt from registration pursuant to section 1145(a) of the Bankruptcy Code and that such New Common Stock may be resold by the Holders thereof without restriction, except to the extent that any such holder is deemed to be an “underwriter” as defined in section 1145(b)(1) of the Bankruptcy Code with respect to the New Common Stock.

4.04. *Listing of New Common Stock.* Reorganized Frank’s shall use commercially reasonable efforts to cause the shares of the New Common Stock to be listed on a national securities exchange or qualifying interdealer quotation system. Reorganized Frank’s will be a public reporting company under the Securities Exchange Act of 1934 and will file periodic and current reports as required thereunder.

4.05. *Exit Financing.* On or before the Effective Date, the Debtors shall have obtained the Exit Facilities.

(a) Real Estate Exit Facility. The real estate Exit Facility shall be substantially on the terms and conditions set forth in the commitment letter annexed as Schedule 4.05(a) hereto.

(b) Receivables and Inventory Exit Facility. The receivables and inventory Exit Facility shall be substantially on the terms and conditions set forth in the commitment letter annexed as Schedule 4.05(b) hereto.

4.06. *New Stock Option Plan.* On the Effective Date, Reorganized Frank’s shall adopt and implement the New Stock Option Plan without the need for any further corporate action in connection therewith.

4.07. *Corporate Authorization.*

(a) *Certificate of Incorporation and Bylaws.*

(i) The certificate of incorporation and by-laws of Reorganized Frank's shall be amended and restated in a manner as is mutually acceptable to the Debtors and the Committee.

(ii) Within sixty (60) days after the Effective Date, Reorganized Frank's shall file such documents and take such other actions as are necessary and appropriate to cause Reorganized Frank's to be reincorporated in the State of Delaware.

(b) *Governance Action.* Any action under the Plan to be taken by or required of Reorganized Frank's, including, without limitation, the adoption or amendment of the certificate of incorporation and by-laws, issuance of securities and instruments, and the mergers of the Debtors into Reorganized Frank's, shall be authorized and approved in all respects, without any requirement of further action by the board of managers of any of the Debtors or Reorganized Frank's.

(c) *Effectuating Documents and Further Transactions.* Each Debtor and, subsequently, Reorganized Frank's shall be authorized to execute, deliver, file, or record such documents, contracts, instruments, releases and other agreements and take such other action as may be necessary to effectuate and further evidence the terms and conditions of the Plan.

4.08. Post-Effective Date Management of Reorganized Frank's.

(a) On the Effective Date, the Board of Directors of Reorganized Frank's shall consist of five (5) members, including Reorganized Frank's Chief Executive Officer and four additional members to be selected by the Committee.

(b) Except as otherwise provided herein, the members of the existing Board of Directors of FNC and Frank's shall have no continuing obligations to Reorganized Frank's on or after the Effective Date.

4.09. *Debtors' Retention of Causes of Action.* On the Effective Date, the Debtors' rights in respect of existing and potential Avoidance Actions shall be preserved and become property of Reorganized Frank's. On the Effective Date, Reorganized Franks shall be

deemed the representative of the Debtors' estates under section 1123(b) of the Bankruptcy Code and will be authorized and shall have the power to commence and prosecute any and all causes of action that could have been asserted by either of the Debtors. **ALL AVOIDANCE**

ACTIONS SHALL SURVIVE CONFIRMATION AND THE COMMENCEMENT OR PROSECUTION OF AVOIDANCE ACTIONS SHALL NOT BE BARRED OR LIMITED BY ANY ESTOPPEL, WHETHER JUDICIAL, EQUITABLE, OR OTHERWISE.

4.10. Release.

(a) The following release shall be valid, binding, and enforceable and shall supplement any benefits from sections 524 and 1141 of the Bankruptcy Code to the Debtors or Reorganized Frank's and to other parties involved in these Chapter 11 Cases:

AS OF THE CONFIRMATION DATE, BUT SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE: NONE OF: (i) THE DEBTORS AND REORGANIZED FRANK'S AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS; (ii) AFFILIATES OF THE DEBTORS AND SUCH AFFILIATES' SUCCESSORS AND ASSIGNS; (iii) THE DEBTORS' PRESENT DIRECTORS AND OFFICERS; (iv) THE DEBTORS' FORMER DIRECTORS AND OFFICERS WHO HELD SUCH POSITION WITH ANY OF THE DEBTORS AS OF OR SINCE THE PETITION DATE; (v) AGENTS, ATTORNEYS, ADVISORS, FINANCIAL ADVISORS, AND INVESTMENT BANKERS OF THE DEBTORS AND THEIR AFFILIATES; AND (vi) ANY PERSON CLAIMED TO BE LIABLE DERIVATIVELY THROUGH AND OF THE FOREGOING, SHALL HAVE OR INCUR ANY LIABILITY TO ANY PERSON FOR ANY CLAIM, OBLIGATION, RIGHT, CAUSE OF ACTION OR LIABILITY (INCLUDING, BUT NOT LIMITED TO, ANY CLAIMS ARISING OUT OF ANY ALLEGED FIDUCIARY OR

OTHER DUTY AND THE AVOIDANCE OF PREFERENCES OR FRAUDULENT CONVEYANCES) WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, EXISTING OR HEREAFTER ARISING, BASED ON WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION OR OCCURRENCE FROM THE BEGINNING OF TIME THROUGH THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS; AND ALL CLAIMS BASED UPON OR ARISING OUT OF SUCH ACTIONS OR OMISSIONS SHALL BE FOREVER WAIVED AND RELEASED; *provided, however,* THAT THIS SECTION SHALL HAVE NO EFFECT ON THE LIABILITY OF ANY PERSON THAT OTHERWISE WOULD RESULT FROM ANY ACTION OR OMISSION TO THE EXTENT THAT SUCH ACTION OR OMISSION IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED WILLFUL MISCONDUCT; *provided further, however,* THAT NOTWITHSTANDING THE RELEASE PROVIDED HEREBY, ANY CLAIM ASSERTED AGAINST REORGANIZED FRANK'S PURSUANT TO SECTION 7.04 HEREOF SHALL REMAIN SUBJECT TO ANY RIGHT OF SET-OFF THAT WOULD OTHERWISE BE AVAILABLE TO ANY OF THE DEBTORS OR REORGANIZED FRANK'S IN THE ABSENCE OF ANY SUCH RELEASE.

THE RELEASE DESCRIBED ABOVE SHALL BE ENFORCEABLE AS A MATTER OF CONTRACT AGAINST ANY HOLDER OF A CLAIM OR INTEREST TIMELY NOTIFIED OF THE PROVISIONS OF THE PLAN. CREDITORS AND INTEREST HOLDERS OF THE DEBTORS SHALL BE ENJOINED FROM COMMENCING OR CONTINUING ANY ACTION, EMPLOYMENT OF PROCESS OR

ACT TO COLLECT, OFFSET OR RECOVER ANY CLAIM THAT IS RELEASED AS PROVIDED HEREIN.

ARTICLE V.

TREATMENT OF CLAIMS AND DISTRIBUTIONS UNDER PLAN

5.01. Distributions to Holders of Old Senior Subordinated Notes Claims.

(a) All Distributions on account of Old Senior Subordinated Notes Claims shall be made to the Indenture Trustee for further distribution to individual holders of Old Senior Subordinated Notes Claims. Any such distribution made by the Indenture Trustee shall be made pursuant to the Indenture. Notwithstanding any provision in the Plan to the contrary, the Indenture shall continue in effect to the extent necessary to allow the Indenture Trustee to receive and make distributions pursuant to the Plan on account of Old Senior Subordinated Notes Claims. Any actions taken by the Indenture Trustee on or after the Effective Date that are not for this purpose shall be null and void as against Reorganized Frank's, and Reorganized Frank's shall have no obligations to the Indenture Trustee for any fees, costs or expenses incurred in connection with any such actions.

(b) As of the close of business on the Record Date, the transfer ledgers for the Old Senior Subordinated Notes shall be closed, and there shall be no further changes in the record holders of any Old Senior Subordinated Notes. Reorganized Frank's and the Indenture Trustee shall have no obligation to recognize any transfer of Old Senior Subordinated Notes occurring on or after the Record Date. Reorganized Frank's and the Indenture Trustee shall instead be entitled to recognize and treat with for all purposes hereunder only with those holders listed on the transfer ledgers of the Indenture Trustee as of the close of business on the Record Date.

(c) Nothing in this Plan shall either enhance or impair any right of the Indenture Trustee to enforce a charging lien against the New Common Stock for amounts due to the Indenture Trustee under the Indenture. To the extent of any such lien, the Indenture Trustee may tender such New Common Stock as necessary to satisfy such lien to Kimco, which shall purchase such shares at their Ascribed Value.

5.02. Distributions to Holders of Other Claims and Interests.

(a) On the Initial Distribution Date or as soon as reasonably practicable thereafter, Reorganized Frank's shall distribute the New Common Stock allocable to Allowed Claims held by members of Classes 7. For the purpose of calculating the amount of New Common Stock to be distributed to holders of Allowed Claims in Class 7 on the Initial Distribution Date (or to the Indenture Trustee for further distribution to holders of Allowed Claims in Class 7, as applicable) all Disputed Claims in Class 7 will be treated as though such Claims will be Allowed Claims in the amounts asserted or as estimated by the Court pursuant to section 502(c) of the Bankruptcy Code, as applicable.

(b) Upon any Interim Distribution Date, Reorganized Frank's may make interim Distributions of New Common Stock to Class 7 in light of resolutions of Disputed Claims since the date of the immediately prior Distribution.

(c) On the Final Distribution Date or as soon as reasonably practicable thereafter, Reorganized Frank's shall make the balance of all Distributions required under the Plan.

(d) Reorganized Frank's may employ or contract with other entities to assist it in making the Distributions required by the Plan.

5.03. *Compensation for Services Related to Distribution.* In consideration for providing services related to Distributions, the Indenture Trustee and any other entity employed by Reorganized Frank's shall receive from Reorganized Frank's, without the need for further Bankruptcy Court approval, reasonable compensation for such services and reimbursement of reasonable out-of-pocket expenses incurred in connection with such services. These payments will be made on terms agreed to with Reorganized Frank's and shall not be deducted from distributions to be made pursuant to the Plan to holders of Allowed Claims and Interests.

5.04. *Miscellaneous Distribution Provisions.*

(a) *Unclaimed Property.* If a Distribution under the Plan remains unclaimed six months following the date of such Distribution, then the holder of the applicable Allowed Claim shall cease to be entitled to such Distribution and such Distribution shall be retained by Reorganized Frank's. If any Distribution on an Old Senior Subordinated Note Claim is returned to the Indenture Trustee as undeliverable, the Distribution shall be held by the Indenture Trustee until it becomes deliverable, or six months from the Effective Date, whichever is earlier. After six months from the Effective Date: (a) the Indenture Trustee shall return all such undeliverable Distributions to Reorganized Frank's; and (b) all such undeliverable distributions shall become the property of Reorganized Frank's.

(b) *Method of Cash Distributions.* Any Cash payment to be made pursuant to the Plan may be made by draft, check, wire transfer, or as otherwise required or provided in any relevant agreement or applicable law.

(c) *Fractional Plan Securities.* Notwithstanding any other provision of the Plan, only whole numbers of shares of New Common Stock will be issued. When any Initial

Distribution or Interim Distribution on account of an Allowed Claim would otherwise result in the issuance of a number of shares of New Common Stock that is not a whole number, the actual distribution of shares of such stock only will include the next lower whole number. When any Final Distribution on account of an Allowed Claim would otherwise result in the issuance of a number of shares of New Common Stock that is not a whole number, the actual distribution of shares of such stock will be rounded to the next higher or lower whole number as follows: (i) fractions equal to or greater than $\frac{1}{2}$ will be rounded to the next higher whole number; and (ii) fractions less than $\frac{1}{2}$ will be rounded to the next lower number. The total number of shares of New Common Stock specified to be distributed to a Class of Claims will be adjusted as necessary to account for the rounding provided for herein. If, as a result of such rounding, the amount of shares of New Common Stock to be distributed to a particular Class differs from the aggregate number of shares of New Common Stock specified to be distributed pursuant to the Plan to that Class, the aggregate number of shares of New Common Stock specified with respect to such Class will be adjusted upward or downward to provide for the appropriate distribution of New Common Stock, as the case may be. No consideration will be provided in lieu of fractional shares that are rounded down, except that with respect to Initial Distributions or Interim Distributions, such fractional shares shall, with respect to each Allowed Claim, be deemed held by Reorganized Frank's or the Indenture Trustee, as the case may be, for the benefit of the holder of such Allowed Claim, to be aggregated with the remaining Distribution to be allocated to such holder on the Final Distribution Date. In addition, notwithstanding the foregoing, no *de minimis* distribution shall be made, as provided in Section 5.04(g) of this Plan.

(d) *Distributions on Non-Business Days.* Any payment or Distribution due on a day other than a Business Day shall be made, without interest, on the next Business Day.

(e) *No Distribution in Excess of Allowed Amount of Claim.* Notwithstanding anything to the contrary herein, no holder of an Allowed Claim shall receive, respecting such Claim, any Distribution (of a value set forth herein) in excess of the allowed amount of such Claim. Except as expressly provided herein, no Claim shall be allowed to the extent that it is for postpetition interest.

(f) *Disputed Payments.* If any dispute arises as to the identity of the holder of an Allowed Claim or Interest entitled to receive any Distribution under the Plan, Reorganized Frank's may retain such Distribution until its disposition is determined by a Final Order or written agreement among the interested parties to such dispute and withhold from such Distribution an amount equal to the fees and costs incurred by Reorganized Frank's in resolving such dispute.

(g) *De Minimis Distributions.* No: (i) Cash payment of less than \$100.00; or (ii) distribution of less than 100 shares of New Common Stock, shall be required to be made to the holder of any Claim until the Final Distribution Date for such Claim.

(h) *Withholding Taxes.* Any federal or state withholding taxes or other amounts required to be withheld under any applicable law shall be deducted and withheld from any Plan distributions.

(i) *Estimation of Disputed Claims.* Unless otherwise provided for herein, upon notice and a hearing, the Court shall estimate the aggregate Face Amount of all Disputed Claims in any Class that are disputed, contingent and/or unliquidated. The aggregate Face Amount of: (a) Disputed Claims; and (b) Allowed Claims shall set the maximum allowable aggregate amount of Claims in each relevant Class that is eligible to receive Distributions hereunder. The existence of a Disputed Claim in any Class shall not impair or impede the

making of a Distribution to Allowed Claims in the same or other Classes. If the allowed amount of any particular Disputed Claim is reconsidered under section 502(j) of the Bankruptcy Code and Bankruptcy Rule 3008 and/or is allowed in an amount that is greater than the estimated amount of such Claim or the ultimately allowed amount of all Disputed Claims in a particular Class is greater than the estimated aggregate Face Amount of such Claims, no claimant shall have recourse to Reorganized Frank's (or any property thereof), any Distribution made to a creditor in any other Class herein, or any Cash, previously distributed on account of any Allowed Claim (however, nothing herein shall modify any right of a holder of a reconsidered Claim under the penultimate sentence of section 502(j) of the Bankruptcy Code).

(j) *Distribution When a Disputed Claim Becomes an Allowed Claim.*

Promptly after a Disputed Claim becomes an Allowed Claim, unless a later time is provided for in the Plan or by agreement of the parties, Reorganized Frank's shall make a Distribution in Cash or a Ratable Share of New Common Stock, as the case may be, to the holder of such Allowed Claim, as if such Claim had been an Allowed Claim on all the prior Distribution Date(s).

5.05. *Objections to Claims.* Unless otherwise ordered by the Bankruptcy Court, all objections to Claims shall be filed with the Bankruptcy Court and served on the applicable claimant on or prior to one-hundred and eighty (180) days after the later of: (a) the Effective Date; and (b) the date a Claim is filed with the Bankruptcy Court and served on counsel for Reorganized Frank's.

5.06. *Settlement of Claims.* Subsequent to the Effective Date, Reorganized Frank's shall have the authority to resolve any Disputed Claim for an Allowed Claim of less than \$100,000 without further Court order and subject only to the filing of a notice of such settlement

with the Court. Any such settlement shall be binding upon all parties in interest in the Chapter 11 Cases.

5.07. *Setoff.* Reorganized Frank's may, but shall not be required to, set off or recoup against any Allowed Claim and the distributions to be made pursuant to the Plan on account of such Claim, claims of any nature that the Debtors or Reorganized Frank's may have against the holder of such Allowed Claim; provided, however, that neither the failure to effect such a setoff or recoupment nor the allowance of any Claim against the Debtors or Reorganized Frank's shall constitute a waiver or release by the Debtors or Reorganized Frank's of any claim that the Debtors or Reorganized Frank's may possess against such holder.

ARTICLE VI.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.01. Rejection.

(a) *Leases and Contracts to be Rejected.* On the Confirmation Date, but subject to the occurrence of the Effective Date, each Debtor, pursuant to section 365 of the Bankruptcy Code, all of the Debtors' executory contracts and unexpired leases shall be deemed rejected except those that: (i) are the subject of motions to assume or reject pending on the Confirmation Date; (ii) were assumed or rejected before the Confirmation Date; (iii) are listed on Schedule 6.02 annexed hereto; (iv) become the subject of a dispute over the amount or manner of cure and for which the Debtors or Reorganized Frank's, as the case may be, makes a motion, at any time, to reject such contract or lease based upon the existence of such dispute; or (v) are agreements, obligations, security interests, or similar undertakings that the Debtors list on Schedule 3.04 hereto as a Secured Claim of the Debtors, but the Bankruptcy Court later determines are subject to assumption or rejection; provided, however, that the Debtors shall not be required to assume or reject any executory contract or unexpired lease with any party that is a

debtor under the Bankruptcy Code unless and until such contract or lease has been assumed or rejected by such other party.

(b) *Effect of Post-Confirmation Rejection.* The entry by the Bankruptcy Court after the Confirmation Date of an order authorizing the rejection of an executory contract or unexpired lease shall result in such rejection being a prepetition breach under sections 365(g) and 502(g) of the Bankruptcy Code.

(c) *Deadline to File Rejection Damage Claims.* Each Person who is a party to a contract or lease rejected under the Plan must file with the Bankruptcy Court and served on the Debtors' attorneys, not later than thirty (30) days after the Confirmation Date, a proof of Claim for damages alleged to arise from the rejection of the applicable contract or lease or be forever barred from filing a Claim, or sharing in distributions under the Plan, related to such alleged rejection damages.

6.02. Assumption.

(a) *Leases and Contracts to be Assumed.* Annexed hereto as Schedule 6.02 is a list of the executory contracts and unexpired leases deemed to be assumed by the Debtors under the Plan as of the Confirmation Date (but subject to the occurrence of the Effective Date) pursuant to section 365 of the Bankruptcy Code, and the cure amounts necessary for such assumptions.

(b) *Deadline to Object to Cure Amounts.* If prior to the Confirmation Date or such other date as the Bankruptcy Court may fix, a party to such an executory contract or unexpired lease listed on Schedule 6.02 hereto fails to file with the Bankruptcy Court and serve upon the attorneys for the Debtors an objection to the applicable cure amount listed on such

Schedule, then such party shall be forever barred from asserting any additional or other amounts against the Debtors respecting such cure amount.

(c) *Method of Cure.* At the election of Reorganized Frank's, any monetary defaults under each executory contract and unexpired lease to be assumed under this Plan shall be satisfied pursuant to section 365(b)(1) of the Bankruptcy Code, in one of the following ways: (a) by payment of the default amount in Cash within thirty (30) days after the Effective Date or such longer period ordered by the Bankruptcy Court; or (b) on such other terms as may be agreed to by the parties to such executory contract or unexpired lease. If a dispute occurs regarding: (x) the cure amount; (y) the ability of the applicable Debtor to provide adequate assurance of future performance under the contract or lease to be assumed; or (z) any other matter pertaining to assumption, then the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order resolving the dispute and approving assumption. Notwithstanding anything herein to the contrary, the Debtors shall retain their right to reject any executory contract or unexpired lease that is subject to a dispute concerning amounts necessary to cure any defaults, until thirty days following entry of a Final Order establishing the cure amount.

ARTICLE VII.

DISCHARGE, RELEASE, INDEMNIFICATION, ABANDONMENT, AND SETTLEMENT OF CLAIMS

7.01. Discharge.

(a) *Scope.* Except as otherwise provided in the Plan or Confirmation Order, in accordance with section 1141(d)(1) of the Bankruptcy Code, entry of the Confirmation Order acts as a discharge, effective as of the Effective Date, of all Claims. The discharge of the Debtors shall be effective as to each Claim, regardless of whether a proof of claim therefor was

filed, whether the Claim is an Allowed Claim, whether the Claim has been asserted, or whether the holder thereof votes to accept the Plan. On the Effective Date, as to every discharged Claim, any holder of such Claim shall be precluded from asserting such Claim against the Debtors or Reorganized Frank's assets or properties, or any other or further Claim based upon any document, instrument, act, omission, transaction or other activity of any kind or nature relating to any Claim.

(b) *Injunction.* In accordance with sections 524 and 1141 of the Bankruptcy Code, the discharge provided by this section, *inter alia*, acts as an injunction against the commencement or continuation of any action, employment of process or act to collect, offset or recover the Claims discharged hereby.

(c) *Release of Securities.* Each holder of any Claim other than a Class 3 Claim, shall surrender to Reorganized Frank's or to the Indenture Trustee, as applicable, any note, instrument, document, certificate, subordinated note, agreement, certificated security or other item, if any, evidencing such Claim. No Distribution hereunder shall be made to or on behalf of any holder of a Claim other than a Class 3 Claim unless and until such holder executes and delivers to the Reorganized Frank's or the Indenture Trustee, as applicable, such items described above, or demonstrates non-availability of such items to the satisfaction of Reorganized Frank's or the Indenture Trustee, as applicable, including requiring such holder to post a lost instrument or other indemnity bond, among other things, to hold Reorganized Frank's or the Indenture Trustee, as applicable, harmless in respect of such instrument or other item described above and any Distributions made in respect thereof. Reorganized Frank's or the Indenture Trustee, as applicable, may reasonably require the holder of such Claim to hold Reorganized Frank's or the Indenture Trustee, as applicable, harmless up to the amount of any

Distribution made in respect of such unavailable note, instrument, document, certificate, subordinated note, agreement, certificated security or other item evidencing such Claim. Any holder of a Claim other than a Class 3 Claim that fails to execute and deliver such release of liens or other items described above or satisfactorily explain their non-availability to Reorganized Frank's or the Indenture Trustee, as applicable, within 120 days of the Effective Date shall be deemed to have no further claim against the Debtors and Reorganized Frank's or their property in respect of such Claim and shall not participate in any Distribution hereunder, and the Distribution that would otherwise have been made to such holder shall be treated as Unclaimed Property.

(d) *Satisfaction of Claims and Interests.* The treatment to be provided for respective Allowed Claims pursuant to this Plan shall be in full satisfaction, settlement, release and discharge of such respective Claims or Interests.

7.02. *Revesting and Vesting.* Except as otherwise provided in this Plan, on the Effective Date all property comprising the estates of the Debtors shall vest in Reorganized Frank's, free and clear of all claims, liens, charges, encumbrances and interests of creditors and equity security holders.

7.03. *Postconfirmation Operations.* As of the Effective Date, Reorganized Frank's may operate their businesses and use, acquire and settle and compromise claims or interests without supervision of the Court free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan and Confirmation Order. Without limiting the foregoing, Reorganized Frank's may pay the charges they incur for professional fees, disbursements, expenses or related support services after the Confirmation Date without any application to the Court.

7.04. *Survival of Certain Indemnification Obligations.* The obligations, if any, of the Debtors to indemnify individuals who serve or served after the Petition Date as the Debtors' respective directors, officers, agents, employees, representatives, and others, including (without limitation) professional persons retained by the Debtors, pursuant to the Debtors' certificate of incorporation, by-laws, applicable statutes and preconfirmation agreements in respect of all present and future actions, suits and proceedings against any of such officers, directors, agents, employees, representatives, and others, including (without limitation) professional persons retained by the Debtors, based upon any act or omission related to service with, for or on behalf of the Debtors on or before the Effective Date as such obligations were in effect at the time of any such act or omission, shall not be discharged or impaired by confirmation or consummation of this Plan, but shall survive unaffected by the reorganization contemplated by this Plan and shall be performed and honored by Reorganized Frank's regardless of such confirmation, consummation, and reorganization.

7.05. *Limitation on Liability Regarding Chapter 11 Activities.* NONE OF THE DEBTORS, THE COMMITTEE, OR KIMCO, OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, MANAGERS, EMPLOYEES, MEMBERS (INCLUDING ANY *ex officio* MEMBERS) OR AGENTS (EACH ACTING IN SUCH CAPACITY), NOR ANY PROFESSIONAL PERSONS EMPLOYED BY ANY OF THEM WILL HAVE OR INCUR ANY LIABILITY TO ANY PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN IN CONNECTION WITH OR RELATED TO THE FORMULATION, PREPARATION, DISSEMINATION, IMPLEMENTATION, CONFIRMATION, OR CONSUMMATION OF THE PLAN, THE DISCLOSURE STATEMENT, ANY CONTRACT, RELEASE, OR OTHER AGREEMENT OR DOCUMENT CREATED OR ENTERED INTO,

OR ANY OTHER ACTION TAKEN OR OMITTED TO BE TAKEN IN CONNECTION WITH THE PLAN OR THE CHAPTER 11 CASES, AND ALL CLAIMS BASED UPON OR ARISING OUT OF SUCH ACTIONS OR OMISSIONS WILL BE FOREVER WAIVED AND RELEASED; *provided, however*, THAT NOTHING HEREIN SHALL AFFECT THE LIABILITY OF ANY ENTITY THAT OTHERWISE WOULD RESULT FROM ANY ACTION OR OMISSION TO THE EXTENT THAT SUCH ACTION OR OMISSION IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED WILLFUL MISCONDUCT.

ARTICLE VIII.

CONDITIONS TO CONFIRMATION AND EFFECTIVE DATE

8.01. *Conditions to Confirmation.* Except as provided in Section 8.03 below, the following are conditions precedent to confirmation of the Plan:

- (a) The Bankruptcy Court shall have entered the Confirmation Order.

8.02. *Conditions to Effective Date.* Except as provided in Section 8.03 below, the Plan may not be consummated unless each of the conditions set forth below has been satisfied:

- (a) The Confirmation Order shall have been entered and not be the subject of any judicial stay.

- (b) All instruments and documents required by the respective lenders in connection with the Exit Facilities shall have been executed and the funding for borrowings thereunder will be available on or before the Effective Date.

8.03. *Waiver of Conditions to Confirmation and Effective Date.*

- (a) *Waiving Party.* Other than the requirements set forth in Sections 8.01(a) and 8.02(a) of the Plan, each of the conditions to confirmation of the Plan or the occurrence of

the Effective Date may be waived in whole or part by the Debtors in their sole discretion, without notice and a hearing.

(b) *Effect of Waiver or Failure to Waive.* Any such waiver(s) shall not affect the relevant Debtors' benefits under the "mootness doctrine." The failure to satisfy or waive any condition may be asserted by any Debtor, regardless of the circumstances giving rise to the failure of such condition to be satisfied (including, without limitation, any act, action, failure to act, or inaction by any of the Debtors). The failure of a Debtor to exercise any of the foregoing rights shall not be deemed a waiver of any other rights and each such right shall be deemed an ongoing right that may be asserted or waived (as set forth herein) at any time or from time to time.

(c) *Method of Waiver.* To be effective, any such waiver(s) must be in writing and filed with the Bankruptcy Court.

8.04. *Effect of Nonoccurrence of the Conditions to Effective Date.* If each of the conditions to the occurrence of the Effective Date has not been satisfied or duly waived on or before the first Business Day that is more than 179 days after the Confirmation Date (or by such later date as the Debtors propose and the Bankruptcy Court approves, after notice and a hearing), upon motion by any party in interest, the Confirmation Order may be vacated by the Bankruptcy Court; *provided, however*, that notwithstanding the filing of such a motion, the Confirmation Order shall not be vacated if each of the conditions to the Effective Date is either satisfied or duly waived before the Bankruptcy Court enters an order granting the relief requested in such motion. If the Confirmation Order is vacated pursuant to this section, then the Plan shall be null and void in all respects, and nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims against, liens on property of the Debtors; or (b) prejudice in any manner

the rights of any of the Debtors, including (without limitation) the right to seek further extensions of the exclusivity periods under section 1121(d) of the Bankruptcy Code, which exclusivity periods shall be deemed to have been extended to the date sixty (60) days after the date of entry of any order vacating the Confirmation Order, subject to the rights of any party to seek to shorten the exclusivity periods after notice and hearing.

ARTICLE IX.

ADMINISTRATIVE PROVISIONS

9.01. *Retention of Jurisdiction.* Notwithstanding confirmation of the Plan or occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction for the following purposes:

(a) Determination of the allowability of Claims against, or the administrative expenses of, the Debtors (except those Claims that are Allowed Claims pursuant to the Plan, unless such determination is pursuant to a reconsideration or modification of the entire Plan), and the validity, extent, priority, and nonavailability of consensual and nonconsensual liens and other encumbrances;

(b) Determination of any of the Debtors' tax liability pursuant to section 505 of the Bankruptcy Code;

(c) Approval, pursuant to section 365 of the Bankruptcy Code, of all matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease of any of the Debtors;

(d) Resolution of controversies and disputes regarding the enforcement or interpretation of the Plan, the Confirmation Order, or the Bankruptcy Court's orders that survive Confirmation of the Plan pursuant to the Plan or other applicable law;

(e) Implementation of the provisions of the Plan, and entry or orders in aid of confirmation and consummation of the Plan and enforcing settlements or orders entered during the Chapter 11 Cases or as part of the Plan, including, without limitation, appropriate orders to protect Reorganized Frank's from actions by Creditors of the Debtors and resolution of disputes and controversies regarding property of the Debtors' estates and Reorganized Frank's;

(f) Modification of the Plan pursuant to section 1127 of the Bankruptcy Code;

(g) Commencement and adjudication of any causes of action that arose preconfirmation or in connection with the implementation of the Plan, including Avoidance Actions and other actions against third parties brought or to be brought by a Debtor, Reorganized Frank's or other successors of either of the Debtors as the representative of the Debtors' estates, or a party in interest (as a representative of either Debtor's estate);

(h) Entry of a Final Order closing the Chapter 11 Cases;

(i) Resolution of disputes concerning Disputed Claims, Claims for disputed distributions and recharacterization or equitable subordination of Claims;

(j) The resolution of any disputes concerning any release under the Plan of a nondebtor or the injunction under the Plan, or in the Confirmation Order against acts, employment of process, or actions against such nondebtor;

(k) Resolution of any disputes concerning whether a Person had sufficient notice of: (i) the Chapter 11 Cases; (ii) the applicable Claims' bar date; (iii) the hearing on the approval of the Disclosure Statement as containing adequate information; (iv) the hearing on confirmation of the Plan for the purpose of determining whether a Claim is discharged hereunder; or (v) for any other purpose;

(l) Issuance of injunctions, grant and implementation of other orders, or taking such other actions as may be necessary or appropriate to restrain interference by any Person with consummation or enforcement of the Plan;

(m) Resolution of controversies and disputes regarding settlement agreements, orders, injunctions, judgments, and other matters entered or approved by the Bankruptcy Court in connection with any adversary proceeding, discovery, or contested matter in any of the Chapter 11 Cases;

(n) Correction of any defect, cure of any omission or reconcile any inconsistency in the Plan, the Confirmation Order, organizational documents of Reorganized Frank's or any other documents relating to the Plan, as may be necessary to carry out the purposes or intent of the Plan;

(o) Adjudication of any pending adversary proceeding, or other controversy or dispute, in any of the Chapter 11 Cases, which arose pre-confirmation and over which the Bankruptcy Court had jurisdiction prior to confirmation of the Plan;

(p) Entry and implementation of such orders as may become necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated; and

(q) Determination of any other matters that may arise in connection with or related to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan or Disclosure Statement.

9.02. Plan Revocation.

(a) *Pre-Confirmation Amendments.* The Debtors reserve the right to modify the Plan at any time prior to the Confirmation Date.

(b) *Revocation of the Plan.* The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date. If the Debtors revoke or withdraw the Plan, or if confirmation of the Plan does not occur, then the Plan and related Disclosure Statement shall be null and void, and nothing contained therein shall: (i) constitute a waiver or release of any Claims by or against, liens in property of, the Debtors; or (ii) serve as an admission of fact or conclusion of law or otherwise prejudice in any manner the rights of the Debtors in any further proceedings involving the Debtors.

9.03. *Successors and Assigns.* The rights, benefits, and obligations of any Person named or referred to in the Plan shall be binding upon, and shall inure to the benefit of, the heir, executor, administrator, successor, or assign of such Person.

9.04. *Severability.* Should any provision in the Plan be determined to be unenforceable following the Confirmation Date, such determination shall in no way limit or affect the enforceability and operative effect of any and all other provisions of the Plan; provided that the Plan, as modified, meets the requirements of the Bankruptcy Code, including, without limitation, section 1127 of the Bankruptcy Code.

9.05. *Governing Law.* Except to the extent the Bankruptcy Code, Bankruptcy Rules, other federal laws apply, or as otherwise expressly provided in the Plan, the rights and obligations arising under the Plan shall be governed by the laws of the State of New York without giving effect to principles of conflicts of law.

9.06. *Committees.* As of the Initial Distribution Date, the duties of any official committee in the Chapter 11 Cases shall terminate except as to: (a) any appeal or motion

for reconsideration of the Confirmation Order; and (b) objections to fee applications of professional Persons or to Claims for substantial contribution pursuant to section 503 of the Bankruptcy Code.

9.07. *Application of Bankruptcy Code section 1146(c).* The issuance, transfer, or exchange of a security, or the making or delivery of an instrument of transfer under the Plan shall be entitled to the tax treatment provided by sections 1146(c) of the Bankruptcy Code and each recording or other agent of any governmental office shall record any such documents of issuance, transfer, or exchange without any further direction or order from the Court.

9.08. *Payment of Statutory Fees.* All fees payable pursuant to section 1930 of title 28, United States Code, due and payable through the Effective Date shall be paid by the Debtors or Reorganized Frank's on or before the Effective Date and amounts due thereafter shall be paid by Reorganized Frank's in the ordinary course.

9.09. *Continuation of Injunctions and Stays.* Unless otherwise provided, all injunctions or stays ordered in the Chapter 11 Cases, pursuant to section 105 of the Bankruptcy Code or otherwise, and extant on the Confirmation Date shall remain in full force and effect unless or until subsequently modified or terminated.


9.10. *Undefined Terms.* Any term used herein that is not defined herein shall have the meaning ascribed to any such term used in the Bankruptcy Code and/or the Bankruptcy Rules, if used therein.

9.11. *Interpretation.* The words “herein,” “hercof,” “hercto,” “hereunder,” and others of similar inference refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan unless otherwise specified herein. The word “including” shall mean including, without limitation. The headings in the Plan are only for convenience of reference and shall not limit or otherwise affect the provisions of the Plan. A term used herein or elsewhere in the Plan that is not defined herein shall have the meaning ascribed to that term, if any, in the Bankruptcy Code or Bankruptcy Rules.

Submitted by:

Dated: March 13, 2002


FNC HOLDINGS, INC.

By: 

Chief Executive Officer
Steven S. Fishman

Dated: March 13, 2002

FRANK'S NURSERY & CRAFTS, INC.

By: 

Chief Executive Officer
Steven S. Fishman

SCHEDULE 1.51

FRANK'S NURSERY & CRAFT, INC. 2002 STOCK OPTION PLAN

1. Definitions. As used in this 2002 Stock Option Plan Frank's Nursery & Craft, Inc., the following terms shall have the following meanings:

(a) "Affiliate" means any affiliate of the Company within the meaning of 17 CFR § 230.405.

(b) "Board of Directors" or "Board" means the Company's board of directors.

(c) "Change in Control" shall mean:

(i) The acquisition, after the Effective Date, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more (on a fully diluted basis) of either (A) the then outstanding shares of Stock, taking into account as outstanding for this purpose such shares issuable upon the exercise of options or warrants, the conversion of convertible shares or debt, and the exercise of any similar right to acquire shares (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors or member managers (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (V) any acquisition by the Company or any Affiliate, (W) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate of the Company, (X) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of Section 1(c)(iii), (Y) any acquisition in connection with any loan or other financing described in, pursuant to, as a result of, or in connection with the Plan of Reorganization, or (Z) any acquisition by an Existing Shareholder (or any Existing Shareholder Affiliate). For purposes of this Section 1(c)(i), "Existing Shareholder" shall be defined as any shareholder receiving Stock pursuant to, as a result of, or in connection with the Plan of Reorganization and "Existing Shareholder Affiliate" shall be defined as any person or entity that, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Existing Shareholder; or

(ii) Individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the directors then comprising the Incumbent Board, was approved by a vote of at least a majority of the Company's shareholders shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation, after the Effective Date, of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 65% of the then outstanding shares of common stock or interests and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation or other entity resulting from such Business Combination (including, without limitation, a corporation or entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, and (B) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliate of the Company, or such corporation resulting from such Business Combination or any Affiliate of such corporation) beneficially owns, directly or indirectly, 35% or more (on a fully diluted basis) of, respectively, the then outstanding shares of common stock or interests of the corporation or entity resulting from such Business Combination, taking into account as outstanding for this purpose such common stock or interests issuable upon the exercise of options or warrants, the conversion of convertible stock, interests or debt, and the exercise of any similar right to acquire such common stock or interests, or the combined voting power of the then outstanding voting securities of such corporation or other entity except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors or equivalent governing body of the corporation or other entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders or equityholders of the Company of a complete liquidation or dissolution of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the full Board of Directors, the Compensation Committee of the Board of Directors, or such other committee of at least two independent people as the Board of Directors may appoint to administer the Plan.

(f) "Company" means Frank's Nursery & Craft, Inc., a Delaware corporation, as reorganized pursuant to the Plan of Reorganization.

(g) "Effective Date" shall have the meaning ascribed to it in Section 21 hereof.

(h) "Exchange Act" means the Securities Exchange Act of 1934.

(i) “Fair Market Value” on a given date means (i) if the Stock is listed on a national securities exchange, the mean between the highest and lowest sale prices reported as having occurred on the primary exchange with which the Stock is listed and traded on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which such a sale was reported; (ii) if the Stock is not listed on any national securities exchange but is quoted in the National Market System of the National Association of Securities Dealers Automated Quotation System on a last sale basis, the average between the high bid price and low ask price reported on the date prior to such date, or, if there is no such sale on that date, then on the last preceding date on which a sale was reported; or (iii) if the Stock is not listed on a national securities exchange nor quoted in the National Market System of the National Association of Securities Dealers Automated Quotation System on a last sale basis, the amount determined by the Committee to be the fair market value based upon a good faith attempt to value the Stock accurately and computed in accordance with applicable regulations of the Internal Revenue Service; or (iv) in the event of a Change in Control, the same amount received by the selling shareholders. Notwithstanding anything contained herein to the contrary, the Fair Market Value as of the consummation date of the Plan of Reorganization shall be the ascribed value set forth in the Plan of Reorganization.

(j) “Grant Date” means the date on which an Option is granted, as specified in Section 7.

(k) “Incentive Option” means an Option which by its terms is to be treated as an “incentive stock option” within the meaning of Section 422 of the Code.

(l) “Nonemployee Director” means a director of the Company who is not an officer or employee of the Company and who is (i) a “nonemployee director” within the meaning of Rule 16b-3 under the Exchange Act, or any successor rule or regulation and (ii) an “outside director” within the meaning of Section 162(m) of the Code; provided, however, that clause (ii) shall apply only with respect to grants of Options intended by the Committee to qualify as “performance-based compensation” under Section 162(m) of the Code.

(m) “Nonstatutory Option” means any Option that is not an Incentive Option.

(n) “Option” means an option to purchase shares of the Stock granted under the Plan.

(o) “Option Agreement” means an agreement between the Company and an Optionee, setting forth the terms and conditions of an Option.

(p) “Option Period” shall have the meaning ascribed to it in Section 9 hereof.

(q) “Option Price” means the price paid or to be paid by an Optionee for a share of Stock upon exercise of an Option.

(r) “Optionee” means a person eligible to receive an Option, as provided in Section 6, to whom an Option shall have been granted under the Plan.

(s) “Plan” means this 2002 Stock Option Plan of the Company.

(t) "Plan of Reorganization" means the Company's Joint Plan of Reorganization, dated February __, 2002, as amended.

(u) "Securities Act" means the Securities Act of 1933, as amended.

(v) "Stock" means common stock, par value \$.001 per share, of the Company.

(w) "Subsidiary" means any subsidiary of the Company as defined in Section 424(f) of the Code.

(x) "Ten Percent Owner" means a person who owns, or is deemed within the meaning of Section 422(b)(6) of the Code to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or its parent or subsidiary corporations). Whether a person is a Ten Percent Owner shall be determined with respect to each Option based on the facts existing immediately prior to the Grant Date of such Option.

2. Purpose. The Plan is intended to encourage ownership of the Stock by key employees and Nonemployee Directors of the Company and to provide additional incentive for them to promote the success of the Company's business. The Plan is intended to provide for the grant of Incentive Options and Nonstatutory Options.

3. Term of the Plan. The expiration date of the Plan, after which no Options may be granted hereunder, shall be the date that is ten years following the Effective Date; provided, however, that the administration of the Plan shall continue in effect until all matters relating to the payment of Options previously granted have been settled.

4. Administration.

(a) The Plan shall be administered by the Committee. Unless otherwise determined by the Board of Directors, each member of the Committee shall, at the time he takes any action with respect to an Option under the Plan, be a Nonemployee Director. The majority of the members of the Committee shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present or acts approved in writing by a majority of the Committee shall be deemed the acts of the Committee.

(b) Subject to the provisions of the Plan (including, without limitation, the provisions of Sections 8 and 9), the Committee shall have complete authority, in its discretion, to make the following determinations with respect to each Option to be granted by the Company: (i) the key employee or Nonemployee Director to receive the Option; (ii) whether the Option (if granted to an employee) will be an Incentive Option or a Nonstatutory Option; (iii) the time of granting the Option; (iv) subject to Section 5, the number of shares of the Stock subject to the Option; (v) the Option Price; (vi) the vesting schedule, if any, over which the Option shall become exercisable; (vii) the expiration date of the Option (which may not be more than ten (10) years after the date of grant thereof); and (viii) the restrictions, if any, to be imposed upon transfer of shares of the Stock purchased by the Optionee upon the exercise of the Option. The Committee shall have complete authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective Option Agreements (which need not be identical), and to make all other determinations necessary or

advisable for the administration of the Plan. The Committee's determination on the matters referred to in this Section 4 shall be conclusive.

5. Stock Subject to the Plan. The Plan covers 3,652,174 shares of the Stock, subject, however, to the provisions of Section 11 of the Plan. All of the shares of the Stock covered by the Plan may be granted, at the Committee's discretion, as performance based compensation pursuant to Section 162(m) of the Code. The number of shares of the Stock purchased pursuant to the exercise of Options and the number of shares of the Stock subject to outstanding Options shall be charged against the shares covered by the Plan; but shares of the Stock subject to Options which terminate without being exercised shall not be so charged. Shares of the Stock to be issued upon the exercise of Options may be either authorized but unissued shares or shares held by the Company in its treasury. During any calendar year no person may be granted Options with respect to more than 500,000 shares of Stock; provided, however, that with respect to calendar year 2002, no person may be granted Options with respect to more than 2,000,000 shares of Stock.

6. Eligibility. An Option may be granted only to a key employee or Nonemployee Director of the Company; provided, however, that Incentive Options may only be granted to employees of the Company.

7. Discretionary Grant of Stock Options. The Committee is authorized to grant one or more Incentive Options or Nonstatutory Options to any person who meets the eligibility requirements of Section 6. Each Option so granted shall be subject to the provisions of the Plan, or to such other conditions as may be reflected in the applicable Option Agreement.

8. Option Price. The Option Price per share of Stock for each Option shall be set by the Committee at the time of grant but shall not be less than, in the case of an Incentive Option, 100% of the Fair Market Value of the Stock on the Grant Date, or not less than 110% of the Fair Market Value of the Stock on the Grant Date if the Optionee is a Ten Percent Owner; provided, however, that all Options intended to qualify as "performance-based compensation" under Section 162(m) of the Code shall have an Option Price per share of Stock no less than the Fair Market Value of a share of Stock on the Grant Date

9. Option Period. Options shall vest and become exercisable in such manner and on such date or dates determined by the Committee and shall expire after such period, not to exceed ten years, as may be determined by the Committee (the "Option Period"); provided, however, that no Incentive Option may be exercised later than the fifth anniversary of the Grant Date if the Optionee is a Ten Percent Owner; further, provided, however, that notwithstanding any vesting dates set by the Committee, the Committee may in its sole discretion accelerate the exercisability of any Option, which acceleration shall not affect the terms and conditions of any such Option other than with respect to exercisability. If an Option is exercisable in installments, such installments or portions thereof which become exercisable shall remain exercisable until the Option expires.

10. \$100,000 Per Year Limitation for Incentive Stock Options. To the extent the aggregate Fair Market Value (determined as of the Grant Date) of Stock for which Incentive Options are exercisable for the first time by any Optionee during any calendar year (under all

plans of the Company and its Subsidiaries) exceeds \$100,000, such excess Incentive Options shall be treated as Nonstatutory Options.

11. Manner of Exercise and Form of Payment.

(a) The Options shall be exercised by delivering written notice to the Company stating the number of shares of Stock to be purchased, the person or persons in whose name the shares of Stock are to be registered and each such person's address and social security number. Such notice shall not be effective unless accompanied by the full purchase price for all shares to be purchased, and any applicable withholding (as described below). The purchase price shall be payable in cash or, in the discretion of the Committee, in shares of Stock, by any other means or method acceptable to the Committee or any combination thereof; provided that the Optionee may use Stock in payment of the exercise price only if the shares so used are considered "mature" for purposes of generally accepted accounting principles, *i.e.*, (i) have been held by the Optionee free and clear for at least six months prior to the use thereof to pay part of an Option exercise price, (ii) have been purchased by the Optionee on the open market, or (iii) meet any other requirements for "mature" shares as may exist on the date of the use thereof to pay part of an Option exercise price. Payment in currency or by certified or cashier's check shall be considered payment in cash. In the event that all or part of the purchase price is paid in shares of Stock, the shares used in payment shall be valued at their Fair Market Value on the date of exercise of the relevant Options. Subject to, and promptly after, the Optionee's compliance with all of the provisions of this Section 11, the Company shall deliver or cause to be delivered to the Optionee a certificate for the number of shares of the Stock then being purchased by him or her. If any law or applicable regulation of the Securities and Exchange Commission or other body having jurisdiction in the premises shall require the Company or the Optionee to take any action in connection with shares of the Stock being purchased upon exercise of the Option, exercise of the Option and delivery of the certificate or certificates for such shares (including, without limitation, any exercise of the Option and delivery of the certificate or certificate for such shares in accordance with the procedures set forth in Section 11(c) below) shall be postponed until completion of the necessary action, which shall be taken at the Company's expense. The number of shares of Stock subject to each outstanding Option shall be reduced by one share for each share of the Stock purchased upon exercise of the Option.

(b) The Company's obligation to deliver shares of Stock upon exercise of an Option shall be subject to the Optionee's satisfaction of all applicable federal, state and local income and employment tax withholding obligations. The Optionee shall satisfy such obligations by making a payment of the requisite amount in cash or by check, unless the Optionee is entitled to and has elected to effect such payment through a "cashless" exercise in accordance with Section 11(c) below.

(c) In lieu of the methods of exercise described in Section 11(a) above, an Optionee may, unless prohibited by applicable law, elect to effect payment by including with the written notice of exercise referred to in Section 11(a) above irrevocable instructions to deliver for sale to a registered securities broker acceptable to the Company a number of shares of Stock subject to the Option being exercised sufficient, after brokerage commissions, to cover the aggregate option price payable with respect to such shares and, if the Optionee further elects, the Optionee's withholding obligations under Section 11(b) with respect to such exercise, together

with irrevocable instructions to such broker to sell such shares and to remit directly to the Company such aggregate option price and, if the Optionee has so elected, the amount of such withholding obligations. The Company shall not be required to deliver to such securities broker any stock certificate for such shares until it has received from the broker such aggregate option price and, if the Optionee has so elected, the amount of such withholding obligations.

12. Transferability of Options. Unless specifically allowed by the Committee and set forth in an Option Agreement, Options shall not be transferable, otherwise than by will or the laws of descent and distribution, and may be exercised during the life of the Optionee only by the Optionee.

13. Termination of Employment. If an Optionee ceases to be an employee of the Company or a Subsidiary, or a Nonemployee Director's service with the Company terminates, for any reason other than retirement (in accordance with any qualified retirement plan maintained by the Company), in the case of an employee, or death of an Optionee, any Option held by that Optionee may be exercised by the Optionee at any time within 90 days after the termination of such relationship, but only to the extent exercisable at termination and in no event after the Option Period. If an Optionee that is an employee of the Company or a Subsidiary enters retirement from employment or any Optionee dies, any Option held by that Optionee may be exercised by the Optionee or the Optionee's trustee, executor or administrator, as applicable, at any time within the shorter of the option period or 12 months after the date of retirement or death, but only to the extent exercisable at retirement or death. Options which are not exercisable at the time of termination of such relationship or which are so exercisable but are not exercised within the time periods described above shall terminate. Military or sick leave shall not be deemed a termination under this Section 13 provided that such leave does not exceed the longer of 90 days or the period during which the reemployment rights of the absent employee are guaranteed by statute or by contract.

14. Adjustment of Number of Shares; Fractional Shares.

(a) Options granted under the Plan and any agreements evidencing such Options, the maximum number of shares of Stock subject to all Options and the maximum number of shares of Stock with respect to which any one person may be granted Options during any year shall be subject to adjustment or substitution, as determined by the Committee in its sole discretion, reasonably exercised, as to the number, price or kind of a share of Stock or other consideration subject to such Options or as otherwise determined by the Committee to be equitable (i) in the event of changes in the outstanding Stock or in the capital structure of the Company by reason of stock dividends, stock splits, reverse stock splits, recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges, or other relevant changes in capitalization occurring after the Grant Date of any such Option or (ii) in the event of any change in applicable laws or any change in circumstances which results in or would result in any substantial dilution or enlargement of the rights granted to, or available for, Optionees in the Plan, or which otherwise warrants equitable adjustment because it interferes with the intended operation of the Plan. In addition, in the event of any such adjustments or substitution, the aggregate number of shares of Stock available under the Plan, and the aggregate number of shares of Stock as to which Options may be granted to any one person over the term of the Plan, shall be appropriately adjusted by the Committee, whose determination shall be conclusive. Any

adjustment in Incentive Options under this Section 14 shall be made only to the extent not constituting a "modification" within the meaning of Section 424(h)(3) of the Code, and any adjustments under this Section 14 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. Further, with respect to Options intended to qualify as "performance-based compensation" under Section 162(m) of the Code, such adjustments or substitutions shall be made only to the extent that the Committee determines that such adjustments or substitutions may be made without a loss of deductibility for Options under Section 162(m) of the Code. The Company shall give each Optionee notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

(b) Upon a Change in Control, all outstanding Options that have not yet become fully vested and exercisable shall become fully vested and exercisable. Upon a Change in Control, the Committee may, in its discretion and upon at least 10 days advance notice to the affected persons, provide that an Option shall terminate, but the Optionee (if at the time an employee or Nonemployee Director of the Company or a Subsidiary) shall have the right, immediately prior to such event, to exercise the Option, to the extent then exercisable by its terms and not theretofore exercised. In the event of a Change in Control, the Committee may also, in its discretion and upon at least 10 days advance notice to the affected persons, cancel any outstanding Options and pay to the Optionees thereof, in cash or stock, or any combination thereof, the value of such Options based upon the price per share of Stock received or to be received by other shareholders of the Company in the event. The terms of this Section 14 may be varied by the Committee in any particular Option Agreement. No fraction of a share of the Stock shall be purchasable or deliverable, but in the event any adjustment of the number of shares of the Stock covered by the Option shall cause such number to include a fraction of a share, such fraction shall be adjusted to the nearest smaller whole number of shares. In the event of changes in the outstanding Stock by reason of any stock dividend, split-up, contraction, reclassification, or change of outstanding shares of the Stock of the nature contemplated by this Section 14 after the Effective Date, the number of shares of the Stock available for the purpose of the Plan as stated in Section 5 and the exercise price per share of each Option shall be correspondingly adjusted.

15. Stock Reserved. The Company shall at all times during the term of the Options reserve and keep available such number of shares of the Stock as will be sufficient to satisfy the requirements of this Plan and shall pay all other fees and expenses necessarily incurred by the Company in connection therewith.

16. Limitation of Rights in Option Stock. The Optionee shall have no rights as a stockholder in respect of shares of the Stock as to which his or her Option shall not have been exercised, certificates issued and delivered and payment as herein provided made in full, and shall have no rights with respect to such shares not expressly conferred by this Plan.

17. Purchase for Investment. The Optionee shall make such representations with respect to investment intent and the method of disposal of optioned shares of the Stock as the Board of Directors may deem advisable in order to assure compliance with applicable securities laws.

18. Voluntary Surrender. The Committee may permit the voluntary surrender of all or any portion of any Nonstatutory Option granted under the Plan to be conditioned upon the granting to the Optionee of a new Option for the same or a different number of shares as the Option surrendered, subject to the aggregate maximum number of shares available under the Plan as set forth in Section 5, or require such voluntary surrender as a condition precedent to a grant of a new Option to such Optionee. Such new Option shall be exercisable at an Option Price, during an Option Period, and in accordance with any other terms or conditions specified by the Committee at the time the new Option is granted, all determined in accordance with the provisions of the Plan without regard to the Option Price, Option Period, or any other terms and conditions of the Nonstatutory Option surrendered.

19. Termination and Amendment of Plan. The Board of Directors may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable, provided, that the Board of Directors may not, without the approval of the Company's shareholders in a manner which complies with the requirements of Sections 422 and 162(m) of the Code and the requirements of any exchange on which the Stock may be listed, increase the maximum number of shares available for option under the Plan (other than as provided in Section 14). In addition, unless the Committee specifically determines otherwise, approval of the Company's shareholders in a manner which complies with the requirements of Sections 422 and 162(m) of the Code shall be required for any other amendment to the Plan which, without such shareholder approval, would cause (a) Options intended to be Incentive Options to fail to qualify as Incentive Options or (b) Options intended to qualify as "performance-based compensation" under Section 162(m) of the Code to fail to so qualify. No termination or amendment of the Plan may, without the consent of the Optionee to whom any Option shall theretofore have been granted, directly and adversely affect the rights of that Optionee under that Option.

20. General

(a) Government and Other Regulations. Notwithstanding any terms or conditions of any Option to the contrary, the Company shall be under no obligation to offer to sell or to sell and shall be prohibited from offering to sell or selling any shares of Stock pursuant to an Option unless such shares have been properly registered for sale pursuant to the Securities Act with the Securities and Exchange Commission or unless the Company has received an opinion of counsel, satisfactory to the Company, that such shares may be offered or sold without such registration pursuant to an available exemption therefrom and the terms and conditions of such exemption have been fully complied with. The Company shall be under no obligation to register for sale under the Securities Act any of the shares of Stock to be offered or sold under the Plan. If the shares of Stock offered for sale or sold under the Plan are offered or sold pursuant to an exemption from registration under the Securities Act, the Company may restrict the transfer of such shares and may legend the Stock certificates representing such shares in such manner as it deems advisable to ensure the availability of any such exemption.

(b) Claim to Options and Employment Rights. No employee, Nonemployee Director, or other person shall have any claim or right to be granted an Option under the Plan or, having been selected for the grant of an Option, to be selected for a grant of any other Option.

Neither the Plan nor any action taken hereunder shall be construed as giving any Optionee any right to be retained in the employ or service of the Company, a Subsidiary or an Affiliate.

(c) No Liability of Committee Members. No member of the Committee shall be personally liable by reason of any contract or other instrument executed by such member or on his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other employee, officer or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan may be allocated or delegated, against any cost or expense (including counsel fees) or liability (including any sum paid in settlement of a claim) arising out of any act or omission to act in connection with the Plan unless arising out of such person's own fraud or willful bad faith; provided, however, that approval of the Board shall be required for the payment of any amount in settlement of a claim against any such person. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or By-Laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

(d) Governing law. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof.

(e) Funding. No provision of the Plan shall require the Company, for the purpose of satisfying any obligations under the Plan, to purchase assets or place any assets in a trust or other entity to which contributions are made or otherwise to segregate any assets, nor shall the Company maintain separate bank accounts, books, records or other evidence of the existence of a segregated or separately maintained or administered fund for such purposes. Holders shall have no rights under the Plan other than as unsecured general creditors of the Company, except that insofar as they may have become entitled to payment of additional compensation by performance of services, they shall have the same rights as other employees under general law.

(f) Relationship to Other Benefits. No payment under the Plan shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company or any Subsidiary except as otherwise specifically provided in such other plan.

(g) Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries and Affiliates.

(h) Pronouns. Masculine pronouns and other words of masculine gender shall refer to both men and women.

(i) Titles and Headings. The titles and headings of the sections in the Plan are for convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings shall control.

21. Effective Date. The Plan is effective as of the effective date of the Plan of Reorganization. The effectiveness of the Plan and the validity of any and all Options granted pursuant to the Plan is contingent upon approval of the Plan by the stockholders of the Company in a manner which complies with Sections 422(b)(1) and 162(m) of the Code, if applicable. Unless and until the stockholders approve the Plan in compliance therewith, no Option granted under the Plan shall be effective.

SCHEDULE 3.01(d) — Administrative Reclamation Claims

Vendor	Amount to be Allowed
The Scotts Company	16,990.76
Taching, Inc.	32,467.79
Pratt & Austin Co.	18,000.00
Tenax Corporation	5,227.86
NL Lawn & Garden Co.	4,633.80
K. Van Bourgendien	102,102.78*
Partrician Product, Inc.	3,152.16
Reliance Trading Corp.	6,332.97
Benick Brands	45,458.10
Real Wood Products Co.	9,349.20
Tyco	8,728.20
Total	\$252,443.62

*Previously allowed and satisfied pursuant to Court order

REVISED SCHEDULE 3.03 – MORTGAGEE CLAIMS

Name of Mortgagee	Store Locations	Outstanding Balance as of 5/19/02
NRFLC (Key Commercial/ Prudential Securities)	- Store #601 - Huntington, NY	\$1,685,744.81
MIDLAND #1 (LaSalle Bank/Lennar Partners)	- Store #34 - Okemos, MI - Store #100 - Joliet, IL	\$2,497,056.08
PEOPLE'S BANK	- Store #631 - Branford, CT - Store #632 - Vernon, CT - Store #633 - Southington, CT - Store #636 - Farmington, CT - Store #643 - Hartford, CT	\$3,541,676.20
MIDLAND #2 (LaSalle)	- Store #99 - Brookhaven, PA - Store #101 - Deptford, NJ - Store #106 - Libertyville, IL - Store #135 - Bridgeton, MO - Store #140 - Lake Zurich, IL - Store #163 - Crystal Lake, IL - Store #265 - St. Peters, MO - Store #623 - Staten Island, NY - Store #628 - Bridgewater, NJ	\$7,862,895.38
MIDLAND #2 (J.E. Roberts Partners)	- Store #25 - Grand Rapids, MI - Store #65 - Roseville, MN - Store #244 - Eden Prairie, MN - Store #277 - Bloomfield, MI - Store #626 - Bricktown, NJ	\$5,998,009.66
FIRST UNION (CRIMI MAE/State Street Bank/ Merrill Lynch)	- Store #32 - Columbus, OH - Store #33 - Grand Rapids, MI - Store #80 - Flint, MI - Store #142 - Cincinnati, OH - Store #205 - Louisville, KY	\$3,393,128.09

SCHEDULE 3.04 - CLASS 4 - OTHER SECURED CLAIMS

NONE

1410331

SCHEDULE 4.05(a)

KIMCO REALTY CORPORATION

3333 New Hyde Park Road
New Hyde Park, NY 11042

February 11, 2002

Frank's Nursery & Crafts, Inc.
1175 West Long Lake Road
Troy, Michigan 48098
Attn: Mr. Steven Fishman
Mr. Larry Lakin

Commitment Letter For Exit Financing

Gentlemen:

On February 19, 2001 (the "Petition Date"), Frank's Nursery & Crafts, Inc. (the "Company"), and FNC Holdings, Inc. ("FNC"), filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the "Code") in the United States Bankruptcy Court for the District of Maryland (the "Bankruptcy Court"). You have advised Kimco Realty Corporation and its affiliates ("Kimco") that the Company has filed, or will be filing, a proposed Plan of Reorganization and a Disclosure Statement (the "Plan"). As used herein, the term "Closing Date" shall mean the date on which the Plan becomes effective.

You have further advised Kimco that to consummate the Plan, the Company will require exit financing on the Closing Date consisting of, among other things, a \$20 million term loan (the "Term Loan") and a \$10 million revolving credit facility (the "Revolving Facility") to be used (i) to repay certain loans under the existing Debtor-in-Possession Credit Agreement (the "DIP Loan"), (ii) to provide for working capital requirements and general corporate purposes of the Company and FNC, and (iii) to make certain payments to creditors under the Plan.

Kimco is pleased to advise you of its commitment, substantially upon the terms and subject to the conditions set forth in this Commitment Letter and in the Outline of Terms and Conditions attached as Exhibit A hereto (the "Term Sheet"), to provide the Company with the \$20 million Term Loan and the \$10 million Revolving Facility (collectively, the "Facility"), all of the Company's obligations under which will be guaranteed by FNC (to the extent still in existence) and shall be secured as described in the Term Sheet.

In the event that Kimco seeks to syndicate all or any portion of the Term Loan and Revolving Facility, the Company agrees to cooperate with Kimco in connection with such

syndication and the Company acknowledges that prior to the Closing Date the structure of the transaction and the terms and conditions thereof may change to ensure a successful syndication, provided that, the total amount available to the Company shall remain unchanged and the remaining terms of the Facility shall be no less favorable to the Company in the aggregate.

Kimco's commitment to provide the Term Loan and Revolving Facility is subject to the entry by the Bankruptcy Court of an order satisfactory in form and substance to Kimco approving the Term Loan and Revolving Facility (the "Approval Order") and the execution and delivery of definitive documents satisfactory in form and substance to Kimco. Such documents shall be consistent with the terms hereof and the annexed term sheet.

Kimco's commitment is also subject to (i) Kimco's satisfaction with, and the approval by the Bankruptcy Court of, the liens to be granted to secure the Term Loan and the Revolving Facility as more fully set forth in the Term Sheet and all definitive documentation in connection therewith, and all actions to be taken, undertakings to be made and obligations to be incurred by the Company and FNC in connection with the Term Loan and Revolving Facility (all such approvals to be evidenced by the entry of one or more orders of the Bankruptcy Court satisfactory in form and substance to Kimco, which orders shall, among other things, approve the payment by the Company of all of the fees that are provided for in the Term Sheet); (ii) the other conditions set forth or referred to in the Term Sheet; (iii) delivery to Kimco of financial information, budgets and projections regarding the confirmation of the Plan and the reorganization of the Company and the Other Debtors (which Kimco acknowledges has already been delivered); (iv) entry by the Bankruptcy Court of an order, in form satisfactory to Kimco, confirming the Plan; (v) the Approval Order and the Interim Order (defined below) shall be final; (vi) no stay of the order confirming the Plan or the Interim Order or the Approval Order shall be in effect; (vii) the Plan shall have become effective in accordance with its terms; and (viii) payment of all fees and expenses set forth in the Term Sheet on or before the dates set forth therein or herein.

You hereby represent and covenant that (a) all information concerning the Company, FNC and other affiliates of the Company (the "Information") that has been or will be made available to Kimco by you or any of your authorized representatives in connection with the transactions contemplated hereby is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, taken as a whole, not materially misleading in light of the circumstances under which such statements are made and (b) all financial projections concerning the Company, FNC and other affiliates of the Company (the "Projections") that have been or will be prepared by you and made available to Kimco has been or will be prepared in good faith based upon reasonable assumptions. In arranging the Term Loan and Revolving Facility, Kimco will be using and relying on the Information and the Projections without independent verification thereof.

Kimco hereby represents that it has the funds available to extend the Facility referenced herein.

As consideration for the commitment and agreements of Kimco hereunder, the Company agrees that it will pay to Kimco (i) the fees set forth in the Term Sheet, (ii) reasonable fees and

expenses of Kimco's counsel and (iii) out-of-pocket costs incurred by Kimco in connection with the preparation, execution and delivery of this letter and the definitive financing agreement and the recordation and perfection of all liens and mortgages granted to Kimco. Once paid, the fees shall not be refundable.

By your signature below, you further agree that you will indemnify and hold harmless Kimco and its respective officers, directors, employees, affiliates, agents and controlling persons from and against any and all losses, claims, damages and liabilities to which any such person may become subject arising out of or in connection with any claim, litigation, investigation or proceeding, regardless of whether any of such indemnified parties is a party thereto, relating to this Commitment Letter, the Term Sheet or any related transaction or relating to the acts or omissions of the Company or FNC or their agents or employees in connection with these Chapter 11 cases or the Plan or the intended use of any of the loans described herein, and to reimburse each of such indemnified persons, from time to time upon their reasonable demand, for any legal or other expenses incurred in connection with investigating or defending any of the foregoing; provided that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities or related expenses to the extent that they are determined by the final judgment of a court of competent jurisdiction to have resulted from the willful misconduct or gross negligence of such indemnified person nor the Company or FNC or their respective officers, directors, employees, affiliates, agents or controlling persons shall be liable for any special, indirect, consequential or punitive damages in connection with this Commitment Letter or the transactions contemplated hereby.

This Commitment Letter shall not be assignable by you or Kimco without the other's prior written consent, and may not be amended or any provision hereof waived or modified except by an instrument in writing signed by you and Kimco.

This Commitment Letter will be governed by, and construed in accordance with, the laws of the State of New York.

On or before the date on the hearing on the adequacy of the disclosure statement, you shall file with the Court and serve on creditors a motion (acceptable in form and substance to Kimco), seeking (i) authority to pay the "Termination Fee" described in the Term Sheet, (ii) authority to pay the portion of the fees and expenses due upon execution of this Commitment Letter and upon the Closing Date, and (iii) approval of the indemnification set forth above (such order approving the fees in (i), (ii) and (iii) herein being referred to as the "Interim Order").

If the foregoing correctly sets forth our agreement, please indicate your acceptance of the terms hereof by signing in the appropriate space below and returning to us the enclosed duplicate originals (or facsimile counterparts) of this Commitment Letter by 5 p.m. (New York City time) on February 14, 2002. Kimco's commitment hereunder shall expire at such time without further obligation on the part of any party hereto unless prior to such time Kimco shall have received originals of this Commitment Letter executed by the Company. In addition, Kimco's commitment hereunder shall expire on May 30, 2002, unless, prior to that time, the Bankruptcy Court shall have entered the Interim Order. In the further event that the Interim Order is entered, Kimco's Commitment hereunder shall expire 120 days after the entry of the Interim Order unless

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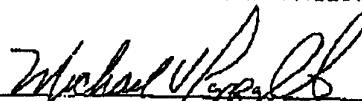
the Closing Date shall have occurred and all fees paid, or an extension has been granted in a writing signed by Kimco.

The compensation and indemnification provisions contained herein shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and notwithstanding the termination of this Commitment Letter or Kimco's commitment hereunder.

This Commitment Letter may be executed in any number of counterparts, each of which will be an original and all of which, when taken together, will constitute one agreement.

Very truly yours,

KIMCO REALTY CORPORATION

By 
Name: MICHAEL Y. P. P.
Title: VICE PRESIDENT / CFO

Accepted and agreed to as of
the date first above written:

FRANK'S NURSERY & CRAFTS, INC.

By: _____
Name:
Title:

the Closing Date shall have occurred and all fees paid, or an extension has been granted in a writing signed by Kimco.

The compensation and indemnification provisions contained herein shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and notwithstanding the termination of this Commitment Letter or Kimco's commitment hereunder.

This Commitment Letter may be executed in any number of counterparts, each of which will be an original and all of which, when taken together, will constitute one agreement.

Very truly yours,

KIMCO REALTY CORPORATION

By _____

Name:

Title:

Accepted and agreed to as of
the date first above written:

FRANK'S NURSERY & CRAFTS, INC.

By:  _____

Name: Larry T. Lakin

Title: Chief Financial Officer

2/7/02

Revised Term Sheet Proposal: Kimco/Frank's Real Estate Financing

Loan Amount: \$30 Million of which \$20 million will be a term loan and \$10 million will be a revolving line of credit

Term: Three Years from Plan's Effective Date (see extension right below)

Interest Rate: 10.25%; Interest is Payable Quarterly in Arrears

Amortization: None

Loan Fee: \$300,000 paid \$75,000 at closing and \$75,000 on each of the 90th, 180th and 270th day after closing. If the transaction does not close for any reason, Debtor shall reimburse Kimco for reasonable legal fees and out-of-pocket expenses relating to this transaction.

Expense Deposit: \$100,000 payable upon execution of the Commitment Letter, which sum shall be held by Kimco and applied at closing against legal fees and out-of-pocket expenses incurred by Kimco in connection with this financing, with any balance remaining to be applied against the first installment of the Loan Fee.

Extension: Provided no event of default exists, up to 2-year extension of up to the full principal amount upon payment of a fee of 1%; rate during extension period to be 10.75%. The period of the extension, the type of facility and the principal amount of the loan to be extended each shall be at the option of Frank's, with the fee to be 1% of amount extended pro-rated to the extent the term is less than 2 years.

Collateral: All owned and leased real estate other than properties currently held for sale and properties currently encumbered by mortgages other than the mortgage in favor of the DIP lender. The owned stores shall be those listed on Schedule A attached hereto. (Lender will consider excluding certain leased real estate where value of lease may not justify costs of collateralization.) The Company may sell collateral in arms'-length transactions and at fair market prices, with the net proceeds to be a mandatory prepayment of the term loan and, thereafter, to the revolver, provided that, no more than 10 properties may be sold without Kimco's prior consent.

Partial Convertibility: A portion of the loan amount (up to \$6.75 million) may be converted, at Lender's sole discretion, to common equity of the company at a conversion price equal to \$1.15 per share (the Ascribed Value, as defined in the Plan of Reorganization). Conversion right expires on the later of (a) the third anniversary from financing or (b) payment in full of the loan. Unless and until any amount is drawn under the revolving line of credit, the conversion amount shall be limited to \$5.75 million. Upon a draw under the revolving right of credit, the conversion amount shall be up to

\$6.75 million notwithstanding the subsequent reduction of the outstandings under the revolver to zero. If the equity conversion is made by Lender at a time when the amount to be converted exceeds the outstanding term loan balance, then Lender shall pay the difference to the Company (so, by way of example, if Lender elects to convert \$5.5 million of term debt when the balance of the term loan is only \$5 million, then the \$5 million debt will be reduced to zero and Lender would contribute an additional \$.5 million). The conversion features described herein may be documented either as part of the term loan or as a separate, stand-alone warrant agreement, at Lender's election.

- Prepayment:** Company may prepay the loan in whole or in part without penalty.
- Due Diligence:** Due Diligence shall be limited to a review of the leases, title, survey and current environmental reports. For leases, such due diligence period shall expire twenty (20) days after execution of the Commitment Letter, and for all other matters the diligence period shall expire twenty (20) days after the delivery of such item or document to Kimco.
- Conditions:** Court approval and execution of definitive documents.
- Covenants:** There will be no financial covenants.
- Revolving Line of Credit:** Frank's may draw down on this line at any time as long as there are no defaults on either the term loan or the Congress Financial Revolving Loan.
- Termination Fee:** The Company shall have the right to terminate the commitment, in whole or in part, prior to the closing, provided that (i) in such event Kimco shall be reimbursed for its reasonable legal fees and out-of-pocket costs incurred by Kimco relating to this transaction, and (ii) if an alternative real estate based transaction is entered into by the Company within six (6) months after the termination, then Kimco shall also be paid a fee of 1%.

SCHEDULE A

List of Owned Stores

STORE #	STORE ADDRESS	CITY	STATE	ZIP CODE	COUNTY
5	25488 Michigan Ave.	Dearborn Heights	MI	48125	Wayne
26	7141 E. Broad	Columbus	OH	43213	Franklin
27	5500 W. Broad St.	Columbus	OH	43228	Franklin
29	1133 Coliseum Blvd.	Ft. Wayne	IN	46805	Allen
30	47340 Van Dyke	Utica	MI	48317	Macomb
45	7940 Penn Ave. S	Bloomington	MN	55431	Hennepin
81	3001 28th St. SW	Grandville	MI	48418	Kent
84	43473 Ford Rd.	Canton Twp.	MI	48188	Wayne
85	325 Mall Dr.	Portage	MI	49002	Kalamazoo
86	8032 Ken-18 Burlington Pk.	Florence	KY	41042	Boone
87	3720 95th St.	Evergreen Park	IL	60805	Cook
88	720 N. Green Bay Rd.,	Waukegan	IL	60087	Lake
90	2989 E. Lincoln Hwy.	Merrillville	IN	46410	Lake
92/401	15300 Hall Rd.	Clinton Twp.	MI	48038	Macomb
93	5737 S. Pennsylvania,	Lansing	MI	48911	Eaton
94	9142 Telegraph	Toledo	OH	43612	Lucas
98	1950 State St.,	St. Charles	IL	60174	Dupage
102	10901 Bustleton	Philadelphia	PA	19116	Philadelphia
103	3707 Coon Rapids Blvd.	Coon Rapids	MN	55433	Anoka
104	10550 Reisterstown Rd.	Owings Mills	MD	21117	Baltimore
105	190 W. Lincoln Hwy.	Exton	PA	19341	Chester
107	1520 Aurora	Naperville	IL	60563	Dupage
112	255 89th Ave.	Blaine	MN	55434	Anoka
118	4366 Pierson Rd.	Flint	MI	48504	Genesee
134	15031 Manchester Rd.	Ballwin	MO	63011	St. Louis
141	7456 S. State Rd.	Bedford Park	IL	60638	Cook
151	2295 10 Mile Rd.	Warren	MI	48091	Macomb
188	448 N. Lexington Pkwy.	St. Paul	MN	55104	Ramsey
202	3365 Highland Ave.	Cincinnati	OH	45213	Hamilton
213	4902 Cortez Rd.	Bradenton	FL	34210	Manatee
219	3075 Mille Rd.	Columbus	IN	47203	Bartholom
240	7325 Old Troy Pike	Huber Heights	OH	45424	Montgomery
266	10808 Montgomery Rd.	Cincinnati	OH	45242	Hamilton
267	1910 E. Ireland Rd.	South Bend	IN	46614	St. Joseph
286	2145 Hwy. 35	Sea Girt	NJ	98750	Monmouth
297	2051 N. Rte. 83	Round Lake Beach	IL	60046	Lake
605	210 Monmouth Rd.	West Long Branch	NJ	07764	Monmouth
624	840 Route 46	Kenvil	NJ	07847	Morris
625	2931 Highway 35	Hazlet	NJ	07730	Monmouth
638	4250 Route 9 South	Howell	NJ	07731	Monmouth

Updated 02/07/2002

SCHEDULE 4.05(b)

Congress Financial Corporation

150 South Wacker Drive, Suite 2200
Chicago, Illinois 60606-4202
312 332-0420
Fax 312 444-9423
<http://www.congressfinancial.com>

**FIRST
UNION**

February 8, 2002

Frank's Nursery & Crafts, Inc.
1175 West Long Lake Road
Troy, Michigan 48098
Attention: Larry T. Lakin

Re: \$50,000,000 Senior Secured Credit Facility

Ladies and Gentlemen:

In accordance with our recent discussions, Congress Financial Corporation (Central) ("Congress") is pleased to issue its commitment (the "Commitment") to provide a \$50,000,000 senior secured credit facility (the "Credit Facility") to the Borrower described below, subject to the terms and conditions set forth herein. Although Congress is committed to provide the entire Credit Facility, Congress reserves the right, as discussed in more detail below, to form a syndicate of financial institutions to provide the Credit Facility.

Subject to the satisfactory completion of each of the conditions set forth herein, the Credit Facility shall be structured as follows:

1. Loan Structure:

- a. Borrower: Frank's Nursery & Crafts, Inc., a reorganized debtor under a plan of reorganization (the "Plan of Reorganization") confirmed in Case No. 01 52415 (the "Bankruptcy Case") commenced under Chapter 11 of the Bankruptcy Code of the United States Bankruptcy Court for the District of Maryland (Baltimore Division) (the "Bankruptcy Court").
- b. Agent: Congress.
- c. Lenders: Congress and such other financial institutions as Congress shall select.
- d. Maximum Credit Line: \$50,000,000.
- e. Revolving Loan: Revolving advances up to the lesser of (i) the Maximum Credit Line, less the aggregate letters of credit outstanding under the Letter of Credit Subline described in Section 1.f below; and (ii) the sum of (a) the lesser of (x) eighty-five percent (85%) of the amount of net eligible accounts due

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 2

from major credit card processors or (y) an amount equal to \$6,000,000, plus (b) the lesser of (x) seventy percent (70%) of the Cost (as defined on Annex A) of eligible inventory of Borrower (subject to adjustment based on the results of the Hilco appraisal currently in process) or (y) eighty-five percent of the Net Recovery Rate (Cost) (as defined on Annex A) of the Cost of eligible inventory of Borrower, less (c) the Letter of Credit Reserve (as defined on Annex A), and less (d) reserves established by Agent in good faith (including, without limitation, a reserve for shrink, a reserve for sales and other taxes and other charges which have priority over Agent's lien on the Specified Collateral (as defined on Annex A), a reserve for customer credits (e.g., gift certificates, merchandise credits and similar liabilities of Borrower to its customers), a rent reserve for inventory at the stores or at third party warehouses if landlord waivers are not obtained, a reserve for amounts collected by Borrower and payable to vendors under consignment or purchase money financing arrangements and a reserve for claims under the Plan of Reorganization which have priority over Agent's lien on the Specified Collateral. The sum of (a) and (b) less (c) and (d) of the foregoing clause (ii) is hereafter referred to as the "Borrowing Base".

Eligible accounts will be defined more specifically in the Loan Documents, but will not include: (i) accounts unpaid more than 5 days past the original transaction date; (ii) accounts which are disputed, are with recourse or with respect to which a claim, counterclaim, offset or chargeback has been asserted (to the extent of such claim, counterclaim, offset or chargeback); or (iii) any account customarily deemed ineligible by Agent in good faith.

Eligible inventory will be defined more specifically in the Loan Documents, but will not include (i) inventory deemed to be obsolete, slow moving or used; (ii) inventory not located in the United States; (iii) inventory in-transit, (iv) consigned inventory, (v) inventory held for return to vendors, (vi) vendor allowances, (vii) out-of-season outdoor live plants, trees and shrubs, (viii) out-of-season fresh Christmas trees, wreaths and plants, (ix) packaging, (x) damaged or defective inventory; or (xi) any other inventory customarily deemed ineligible by Agent in good faith.

- f. Letter of Credit Subline: \$25,000,000 in letters of credit (or guaranties thereof) on behalf of Borrower not to exceed the amount by which the Borrowing Base exceeds the outstanding Revolving Loans.

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Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 3

Borrower will be charged a letter of credit fee equal to the L/C rate in Section 4 set forth below times the average undrawn amount of all outstanding letters of credit, payable monthly in arrears, plus issuing bank charges.

2. Purpose: Loan proceeds shall be used to (i) repay Borrower's secured working capital and other indebtedness on the effective date (the "Effective Date") of the Plan of Reorganization; (ii) otherwise enable Borrower to consummate the Plan of Reorganization on the Effective Date; and (iii) for general corporate purposes.
3. Term of Facility/Early Termination Fee: Three years. In the event of early termination (whether voluntarily by Borrower, as a result of an event of default, or otherwise), Borrower shall pay an early termination fee of two percent (2%) of the Maximum Credit Line if terminated during the first year of the Credit Facility, one percent (1%) of the Maximum Credit Line if terminated during the second year of the Credit Facility, and one-half of one percent (0.5%) of the Maximum Credit Line if terminated after the second anniversary and prior to the third anniversary of the date of closing or at any other time prior to the end of the then current term. Commencing on its initial term, the Credit Facility will be automatically renewable for one year periods unless either party gives sixty (60) days prior written notice to the other party of its intent to terminate.
4. Interest Rate: The rate of interest charged on the Revolving Loans shall be a per annum rate equal to the Applicable Margin set forth below above the prime rate publicly announced by First Union National Bank or a per annum rate equal to the Applicable Margin set forth below above the Adjusted Eurodollar Rate (as defined in Annex A). Interest and letter of credit fees shall be calculated on the basis of a 360 day year and actual days elapsed, and shall be payable monthly in arrears. All collections and remittances shall be directed to a blocked account and shall be subject to a one business day charge after receipt of good funds by Agent. Upon the occurrence and during the continuation of an event of default, no Eurodollar Rate loans will be permitted and all obligations will bear interest at a per annum rate equal to two (2.00) percentage points above the otherwise applicable interest rate and the letter of credit fee will be increased by two (2.00) percentage points. The Applicable Margin shall be as follows:

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	Prime Applicable Margin	Eurodollar Applicable Margin	L/C Rate
When Excess Availability Is:			
\$25,000,000 or greater	0.25%	2.75%	2.00%
\$14,000,000 to \$24,999,999	0.50%	3.00%	2.25%
Less than \$14,000,000	0.50%	3.25%	2.50%

Until the end of the first six full calendar months following the date the initial loans are made hereunder (the "Closing Date"), the Applicable Margin for prime loans shall not be less than one-half of one percent (0.50%), the Applicable Margin for eurodollar rate loans shall not be less than three percent (3.00%) and the L/C Rate shall not be less than two and one-quarter percent (2.25%). Thereafter, the Applicable Margins and LC rate shall adjust based on the chart set forth above on the first day of each calendar month based on the average daily Excess Availability (as defined on Annex A) for the immediately preceding month.

Eurodollar rate loans shall be subject to certain conditions to be set forth in the Loan Documents, including the following: (i) all Eurodollar loans shall be available in interest periods of thirty (30) days, sixty (60) days, or ninety (90) days, as selected by Borrower; and (ii) Borrower shall be responsible for any Eurodollar contract breakage fees (but shall not include lost profits) or other associated costs, as determined by Agent.

5. Fees: Borrower shall pay to Congress a non refundable Commitment Fee equal to \$250,000 upon approval of the Bankruptcy Court; provided, that if such approval is not obtained on or before March 11, 2002, this Commitment shall terminate. Borrower shall pay to Congress a closing fee in the amount of \$250,000 on the Closing Date. In addition, an unused line fee of one-quarter of one percent (0.25%) per annum shall be charged and payable monthly in arrears by Borrower, based on the difference between the Maximum Credit Line and the average monthly borrowings and letters of credit outstanding during the preceding month, and (b) a servicing fee of \$10,000 for each calendar quarter or part thereof shall be charged and payable quarterly in advance by Borrower.
6. Collateral Support: The Credit Facility shall be secured by (a) a first priority, perfected security interest in all of the Specified Collateral and (b) a second priority, perfected security interest in all other personal property of Borrower (other

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Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 5

than specified equipment acceptable to Congress that is subject to a lease or other financing arrangement that prohibits such security interest in favor of Congress).

7. Periodic Loan Maintenance Charges: Borrower shall reimburse Agent for audit, appraisal, and valuation fees and charges as follows (i) a fee of \$750 per day, per auditor, plus out-of-pocket expenses for each collateral audit of Borrower performed by personnel employed by Agent, (ii) out-of-pocket expenses, for each appraisal of the Collateral performed by personnel employed by Agent, and (iii) the actual charges paid or incurred by Agent if it elects to employ the services of one or more third persons to perform collateral audits of Borrower, to appraise the Collateral, or any portion thereof.
8. Conditions Precedent: Congress' obligation to extend credit to Borrower shall be subject to the satisfaction of each of the following conditions precedent in a manner satisfactory to Congress:
 - a. Borrower shall have obtained confirmation of the Plan of Reorganization, which Plan of Reorganization shall provide for the Credit Facility, shall contain terms and provisions acceptable to Congress and shall otherwise be in form and substance acceptable to Congress.
 - b. The Plan of Reorganization shall have been confirmed by a final order entered by the Bankruptcy Court (the "Confirmation Order"), in form and substance acceptable to Congress, and which has not been stayed by the Bankruptcy Court or by any other court having jurisdiction to issue any such stay. The Confirmation Order shall have been entered upon proper notice to all parties to be bound by the Plan of Reorganization, all as may be required by the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure and any applicable local bankruptcy rules. In addition to the foregoing, the time to appeal the Confirmation Order or to seek review, rehearing, or certiorari with respect to the Confirmation Order must have expired, no appeal or petition for review, rehearing or certiorari with respect to the provisions of the Confirmation Order may be pending that (i) would be material, (ii) related to the Credit Facility or (iii) related to the effectiveness of the Plan of Reorganization, and the Confirmation Order must otherwise be in full force and effect.
 - c. The Plan of Reorganization shall have been consummated and the Effective Date thereunder shall have occurred.

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Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 6

- d. The loans shall be made pursuant to, and subject to, the terms of loan agreements, notes, and other financing documents (the "Financing Documents") executed and delivered by Borrower on or prior to the closing date, containing such representations, warranties, covenants (affirmative and negative), conditions to funding, events of default, indemnification provisions, agency provisions, co-lender provisions and yield protection provisions as are customary, in Congress' experience, for a transaction of this type. Without limiting the foregoing, the loan agreement shall contain covenants that Borrower shall be required to maintain (i) minimum Excess Availability (as defined on Annex A) of \$3,000,000 at all times, (ii) minimum EBITDA in amounts to be determined prior to closing, (iii) minimum accounts payable to inventory levels in amounts to be determined prior to closing and (iv) minimum inventory levels in amounts to be determined prior to closing. The covenants in (ii), (iii) and (iv) shall be tested monthly and only if Excess Availability is less than \$9,000,000 or there is a default under our Loan Documents.
- e. Borrower shall have executed and/or delivered, or caused to be delivered, to Congress at or prior to the closing date, such security agreements, financing statements, fixture filings, inter-creditor agreements, deeds of trust, mortgages, blocked and depository account agreements, credit card processor agreements, landlord waivers (alternatively, Agent shall establish an appropriate lease reserve), bailee agreements, and other agreements affecting the Collateral, insurance certificates and endorsements, and other documentation relative to the liens and security interest in the Collateral as Congress may reasonably request (the "Security Documents"). Each of the Financing Documents and the Security Documents (collectively, the "Loan Documents") shall be governed by the law of the State of Illinois and shall need to be in form and substance reasonably satisfactory to Congress and its counsel.
- f. Congress shall have completed all lien searches with respect to the Collateral. The financing statements, fixture filings, deeds of trust, mortgages, and other Documents related to perfection of Congress' interests in the Collateral shall have been filed or recorded in all appropriate jurisdictions and, with respect to financing statements, Congress shall have received searches reflecting its filings of record. If requested by Congress, Congress shall have received title insurance (with endorsements specified by Congress) and ALTA surveys with respect to the real property of Borrower that is part of the Specified Collateral.

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February 8, 2002
Page 7

- g. Congress shall have received such opinions of Borrower's counsel and such advice of Congress' counsel as Congress shall require, which opinions and/or advice shall be in form and substance satisfactory to Congress and its counsel.
- h. Borrower shall have delivered such certified articles of incorporation, good standing certificates, secretary's certificates and other corporate documents as Congress requests.
- i. Borrower shall, at closing, have Excess Availability under the Credit Facility in an amount acceptable to Congress.
- j. Borrower shall have consummated its real estate financing arrangement with KIMCO, which arrangement shall be on terms and conditions set forth in the term sheet attached hereto as Annex C.
- k. Receipt and satisfactory review of the Hilco inventory appraisal and Loewe-Adler real estate appraisals. Based on the inventory appraisal results, Congress will establish sub-limits and an advance rate matrix for various categories of inventory and seasons.
- l. Borrower shall pledge eight unencumbered real estate properties (listed on Annex B) as additional collateral and if such property is sold, reserves against the Borrowing Base may be established in a manner to be determined prior to the Closing Date.
- m. Quarterly inventory appraisal updates, at the expense of Borrower, by independent appraisers acceptable to Congress.
- n. Congress shall have completed its environmental due diligence of Borrower and the results thereof shall be satisfactory to Congress.
- o. Congress shall have completed its field examination and a pre-closing collateral update and the results thereof shall be satisfactory to Congress.
- p. Congress shall have completed its legal due diligence.
- q. There shall have been no material adverse change in the business, operations, assets, financial condition or prospects of Borrower since December 2, 2001.

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 8

9. Loan Origination Costs: Borrower shall pay for all of Congress' incurred costs and expenses incurred in connection with the proposed financing transaction including field examination costs and out-of-pocket expenses incurred by field examiners (at a rate of \$750 per examiner per day) and appraisers in verifying Borrower's records and assets, Congress' reasonable legal expenses for advice in preparing documents in connection with the proposed loan, and any filing and search fees. Borrower's reimbursement obligations set forth herein shall apply whether or not the Credit Facility closes, and Congress' right to receive reimbursement of all costs and expenses incurred in connection with Borrower's account and the Credit Facility shall be entitled to priority as an Administrative Expense claim under Section 503(b)(1) of the Bankruptcy Code, and to immediate payment upon demand by Congress without any further order of the Bankruptcy Court, whether or not the Credit Facility closes.

10. Expense Deposit: In connection with the requested financing, Borrower understands that Congress will continue to make certain financial, legal and collateral investigations and determinations. Borrower has previously deposited with Congress the sum of \$100,000 against the expenses of Congress pursuant to the terms of Section 8 of the proposal letter between Congress and Borrower dated January 18, 2002. Congress requests that Borrower pay an additional deposit of \$100,000 (the "Deposit") to Congress to be paid upon approval of the Creditors' Committee; provided, that if such approval is not obtained on or before February 22, 2002, this Commitment shall terminate.

The terms and provisions of this letter shall be of no force or effect unless Borrower delivers to Congress, on or before March 11, 2002, a copy of an order entered by the Bankruptcy Court in the Bankruptcy Case, in form and substance acceptable to Congress, authorizing Borrower's payment to Congress of the Commitment Fee and the Deposit (the "Designated Fees"), and otherwise authorizing Borrower's acceptance of this letter, which order shall specifically provide that Congress' right to receive the Commitment Fee and Deposit, and to reimbursement of all costs and expenses incurred in connection with Borrower's account and the Credit Facility shall be entitled to priority as Administrative Expense claims under Section 503(b)(1) of the Bankruptcy Code, and to immediate payment upon demand by Congress without any further order of the Bankruptcy Court, whether or not the Credit Facility closes.

Such deposits, together with any other deposits at any time received by Congress from or on behalf of Borrower, will be held by Congress and will be applied to the expenses of Congress as and when they are incurred, and Congress will provide supporting documentation for such expenses. If (i) the transactions contemplated

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 9

hereby do not close on or before May 31, 2002, whether as a result of Borrower's election to not close the transactions contemplated hereby with Congress or a failure to fulfill any of the conditions precedent set forth herein, or (ii) Borrower intentionally misleads Congress or intentionally fails to disclose material information which, if disclosed, would have a material adverse impact on the loan approval, then in each case Congress shall be entitled to retain the full amount of the Deposit and any other deposits, irrespective of the amount of the expenses incurred by Congress. The retention by Congress of the balance of the Deposit and any other deposits results from its reasonable endeavor to estimate the added administrative costs incurred and the amount of damage sustained by Congress as a result of Borrower's decision to decline to accept the financing. If the Credit Facility is funded, the Deposit and any other deposits will be returned to Borrower after deducting all reasonable expenses incurred by Congress. Congress shall not be obligated to segregate such Deposit from its other funds and Borrower is not entitled to receive interest on any portion of such Deposit. Borrower hereby agrees to pay to Congress the full amount of its reasonable expenses incurred in connection with the transaction contemplated hereby, irrespective of the amount of the Deposit and whether the subject transaction actually is consummated. Congress reserves the right to request additional deposits in its reasonable determination.

11. Complete Agreement; No Oral Modifications: The Commitment embodies the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior proposals, negotiations, or agreements whether written or oral, relating to the subject matter hereof including any letter of intent. This letter may not be modified, amended, supplemented, or otherwise changed, except by a document in writing signed by the parties thereto.

12. GOVERNING LAW; JURY WAIVER. THIS LETTER SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF ILLINOIS AND THE VALIDITY OF THIS LETTER AND THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF, AND THE RIGHTS OF THE PARTIES HERETO RELATING TO CLAIMS OR CAUSES OF ACTION ARISING IN CONNECTION HERewith SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS. BORROWER AND CONGRESS HEREBY EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR RESPECT TO THIS LETTER, OR IN ANY WAY RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO WITH

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 10

RESPECT TO THIS LETTER, OR THE TRANSACTIONS CONTEMPLATED
HEREBY, IN EACH CASE WHETHER NOW OR HEREAFTER ARISING,
IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR
OTHERWISE. BORROWER AND CONGRESS HEREBY AGREE THAT ANY
SUCH CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING
SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT
ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A
COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF
THE CONSENT OF THE OTHER PARTY HERETO TO WAIVE ITS RIGHT TO
TRIAL BY JURY.

13. Closing Date: If the transactions contemplated by this letter are not consummated on or before May 31, 2002 then the Commitment set forth herein shall expire, without further notice or act of any kind by Congress or any other party.
14. Indemnification: Borrower shall pay, indemnify, defend, and hold Congress, and each of its officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other reasonable costs and expenses incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with or as a result of or related to the execution, delivery, enforcement, or performance, of this letter or the transactions contemplated herein, and with respect to any investigation, litigation, or proceedings related to this letter (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event or circumstance in any manner related thereto, unless and to the extent such claims, demands, suits, actions, investigations, proceedings, damages, fees, disbursements, costs or expenses are incurred as a result of the gross negligence, intentional fraud or willful misconduct of an Indemnified Person. This provision shall survive the termination of this letter.
15. Syndication: Borrower agrees to assist Congress, upon request by Congress, in forming a syndicate of lenders and to provide Congress and the proposed lending group, promptly upon request, with all information deemed necessary by them to complete successfully the syndication of the Commitment. Borrower acknowledges that the Commitment in this letter has been based upon the financial information delivered to Congress through the date hereof and that Congress may copy, utilize and distribute any and all such information provided by Borrower or its

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 11

affiliates or consultants in connection with their efforts to syndicate the credit. Borrower also agrees that it will provide appropriate senior officers to attend and participate in any informational meetings or other diligence sessions with potential syndicate members and participants which Congress may determine to hold in connection therewith.

16.

Accuracy of Information: Borrower represents and warrants that (a) all information which has been or is hereafter made available to Congress or any other prospective lender by Borrower, its affiliates or any of their respective representatives in connection with the proposed Credit Facility is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements are made, and (b) all financial projections that have been or are hereafter prepared by Borrower, its affiliates or any of their respective representatives and made available to Congress or any other prospective lender have been or will be prepared in good faith based upon reasonable assumptions which have been adequately disclosed as part of such projections. Borrower agrees to supplement the information and projections referred to in clauses (a) and (b) above from time to time until the Closing Date so that the representation and warranty in the preceding sentence remains correct and, in the event any such information and projections materially and adversely vary from those delivered through the date hereof, Congress shall have no further obligation to proceed with the financing contemplated hereby. Borrower understands that in arranging and syndicating the Credit Facility, Congress may be using and relying on such information and projections without independent verification thereof and Borrower agrees that if it discovers that any of the information at any time provided to Congress is incomplete, inaccurate or misleading in any material manner, Borrower will immediately notify Congress of that fact and provide corrected information.

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FEB-08-2002 19:34
FEB. 8.2002 2:08PM

WFG 41-085 41FAX4
CONGRESS FINANCIAL

05971200976 P.12/14
NU.983 P.2/c
IN.083 P.2

Frank's Nursery & Crafts, Inc.
February 8, 2002
Page 12

If you wish to proceed on the basis outlined above, please execute this letter in the space provided below and return it to the undersigned no later than 5:00 p.m., Chicago time, on or before February 8, 2002.

Very truly yours,

CONGRESS FINANCIAL CORPORATION
(CENTRAL)

By [Signature]
Its Senior Vice President

Acknowledged this 8th day of February, 2002

FRANK'S NURSERY & CRAFTS, INC.

By [Signature]
Its Chief Financial Officer

ANNEX A

"Adjusted Eurodollar Rate" means, with respect to each interest period for any eurodollar rate loan, the rate per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one percent (1%)) determined by dividing (a) the Eurodollar Rate for such Interest Period by (b) a percentage equal to: (i) one (1) minus (ii) the Reserve Percentage. For purposes hereof, "Reserve Percentage" shall mean the reserve percentage, expressed as a decimal, prescribed by any United States or foreign banking authority for determining the reserve requirement which is or would be applicable to deposits of United States dollars in a non-United States or an international banking office of First Union National Bank used to fund a eurodollar rate loan or any eurodollar rate loan made with the proceeds of such deposit, whether or not First Union National Bank actually holds or has made any such deposits or loans. The Adjusted Eurodollar Rate shall be adjusted on and as of the effective day of any change in the Reserve Percentage.

"Collateral" means all property and interest in property of Borrower, whether personalty or realty, whether now or hereafter acquired, including, without limitation, all accounts, inventory, general intangibles, equipment, documents, instruments, chattel paper, fixtures and real property.

"Cost" means the lower of (a) cost computed on a first-in-first out basis in accordance with GAAP or (b) market value, as determined by Agent in good faith, with respect to the inventory of Borrower.

"Eurodollar Rate" means with respect to the interest period for a eurodollar rate loan, the interest rate per annum equal to the arithmetic average of the rates of interest per annum (rounded upwards, if necessary, to the next one-sixteenth (1/16) of one percent (1%)) at which First Union National Bank is offered deposits of United States dollars in the London interbank market (or other eurodollar rate market selected by Borrower and approved by Agent) on or about 9:00 a.m. (New York time) two (2) Business Days prior to the commencement of such interest period in amounts substantially equal to the principal amount of the eurodollar rate loans requested by and available to Borrower, with a maturity of comparable duration to the interest period selected by Borrower.

"Excess Availability" means, as to Borrower, the amount, as determined by Agent, calculated at any date, equal to: (a) the lesser of: (i) the Borrowing Base of Borrower and (ii) the Maximum Credit minus (b) the sum of: (i) the amount of all then outstanding and unpaid Obligations of Borrower plus (ii) the aggregate amount of all then outstanding and unpaid trade payables and other obligations of Borrower which are outstanding more than sixty (60) days past due as of such time (other than trade payables or other obligations being contested or disputed by Borrower in good faith), plus (iii) without duplication, the amount of checks issued by Borrower to pay trade payables and other obligations which are more than sixty (60) days past due as of such time (other than trade payables or other obligations being contested or disputed by Borrower in good faith), but not yet sent.

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"Letter of Credit Reserve" means a reserve equal to (i) 100% of the aggregate outstanding face amount of any standby letters of credit and documentary letters of credit for which negotiable documents of title are not consigned to the issuing bank, plus (ii) the sum of one hundred percent (100%) minus the advance rate then in effect with respect to inventory (based on the cost of such inventory) of the aggregate amount of documentary letters of credit for which negotiable documents of title are consigned to the issuing bank, plus duty, freight and Cost of transport in connection with the inventory purchased with such documentary letters of credit.

"Net Recovery Rate (Cost)" means the percentage of the Cost of eligible inventory of Borrower that an appraiser acceptable to Agent, and engaged by Agent, projects will be recovered, net of liquidation expenses and fees, in a "going out of business" sale, pursuant to the most recent appraisal acceptable to Agent prepared by such appraiser.

"Specified Collateral" means all Collateral other than (i) equipment that is subject to a lien prior to that of Congress under the Plan of Reorganization and (ii) any real property and fixtures of Borrower except for the real property listed on Annex B.

SCHEDULE 6.02

**EXECUTORY CONTRACTS AND UNEXPIRED
LEASES ASSUMED UNDER THE
PLAN AND RELATED CURE AMOUNTS**

CONTRACTS TO BE ASSUMED

PARTY	CONTRACT	CURE
Atlas Auto Leasing 39935 Grand River Novi, MI 48375	Fleet Vehicle Leases (11 vehicles)	0.00
Atlas Auto Leasing 39935 Grand River Novi, MI 48375	Forklift Leases (17 store forklifts)	0.00
Atlas Auto Leasing 39935 Grand River Novi, MI 48375	Electric Equipment & Batteries Leases (14 D.C. forklifts, 19 batteries, 1 sweeper, 1 scrubber)	0.00
NMHG/Yale Financial PO Box 747016 Pittsburgh, PA 15274-7016	Forklift Leases (3 store forklifts)	0.00
All Vend Management Corp. 2121 W. Airport Fwy., Ste. 380 Irving, TX 75062	Vending Machines	0.00
Grinnell Fire Protection 107800 Northwest Fwy., #400 Houston, TX 32428	Fire Sprinkler Protection	61,215.81
Computerized Waste System PO Box 32428 Louisville, KY 40232	Trash Removal/Recycling	73,860.80
IBM Credit Corp. 91222 Collection Ctr. Dr. Chicago, IL 60693-1222	P.O.S. Cash Register Lease	313,588.00
Alpha National Technology Services 2501 E. Loop, 820 N Fort Worth, TX 76118	Printer Maintenance (stores)	0.00
Facsimile Systems, Inc. 27280 Haggerty Rd., Ste. C-6 Farmington Hills, MI 48331	Fax Machine Maintenance	8,271.84
Deposit Payment Protection Services, Inc. 400 W. Deluxe Pkwy., PO Box 12536 Milwaukee, WI 53212-0536	Check Processing	1,356.99
AJB Software Design 185 The West Mall, Ste. 1020 Toronto, Ontario, Canada M9C 5L5	Check/Charge Computer Software	0.00
Front Range HEAT Division Dept. #1027 Denver, CO 80263	Computer Software (Help Desk)	0.00
S2 Systems, Inc. 15301 Dallas Parkway, Ste. 600 Dallas, TX 75248-4683	Charge Card Computer Software	0.00

PARTY	CONTRACT	CURE
Stratus Computer 2 Westbrook Corp. Ctr., Ste. 320 Westchester, IL 60154	Charge Card Computer Software	0.00
CRS Retail Systems 15 Governor Dr. Newburgh, NY 12650	POS Software Maintenance	98,751.81
JDA Software Systems, Inc. 14000 N. 87th St. Scottsdale, AZ 85260-3649	JDA Merchandise Management System Software	4,071.36
JDA Software Systems, Inc. 14000 N. 87th St. Scottsdale, AZ 85260-3649	JDA Retail Ideas Software	21,887.50
Peregrine Systems 1277 Lenox Park Blvd. Atlanta, GA 30319-5396	EDI Software	0.00
S2 Software PO Box 910291 Dallas, TX 75391-0291	On2 Credit Card S2	0.00
IBM Credit Corp. 2707 Butterfield Rd. Oak Brook, IL 60523	Computer Lease (AS/400)	33,317.16
CIT/GE CIT Systems Leasing Dept. 56901 PO Box 67000 Detroit, MI 48267	Computer Lease (AS/400)	0.00
Pro Data 2809 S. 160th St., Ste. 401 Omaha, NB 68130	Software Maintenance (Database Utility)	0.00
Help/Systems, Inc. 210 Baker Technology Plaza 6101 Baker Rd. Minnetonka, MN 55345	Robot Maintenance Software (AS/400)	0.00
Penta Safe Penta Safe Security Technologies 802 Lovett Blvd. Houston, TX 77006	System Security Software Maintenance	0.00
SoftLanding Systems, Inc. 84 Elm St. Peterborough, NH 03458	Data Base Reorg. Software Maintenance	0.00
RedTitan, LLC 258 Whetstone Rd. Harwinton, CT 06791	RedTitan Software Maintenance	0.00
Hawkeye Information Systems, Inc. PO Box 2167 Fort Collins, CO 80522	Pathfinder Services Software Support	0.00

PARTY	CONTRACT	CURE
SunGuard Recovery Services, Inc. PO Box 91233 Chicago, IL 60693	Disaster Recovery Planning & Services	18,105.00
ARCUS Data Security, Inc. 30555 Northwestern Hwy. Farmington Hills, MI 48334	Offsite Magnetic Media Storage	0.00
GS Leasing 3290 W. Big Beaver, Ste. 200 Troy, MI 48064	Personal Computers	34,404.36
Qwest Communications 1801 California St., Ste. 3800 Denver, CO 80202	Telecommunications Services Contract	10,130.91
Sprint 2330 Shawnee Mission Parkway Westwood, KS 66205	Telecommunications Services-Store Dial Backup	11,470.26
Siemens Credit Corp. 991 US Highway 22 Bridgewater, NJ 08807	Troy-South PBX and Components	0.00
Siemens 1 Town Square, Ste. 300 Southfield, MI 48076	PBX Maintenance Contract-North & South	14,572.83
Ameritech 225 W. Randolph, Floor 25 Chicago, IL 60606	Custom Service Agreement-Fiber Optic OC3 Link	0.00
Michigan Internet Communications Assn. 21711 W. 10 Mile Rd., Ste. 205 Southfield, MI 48075	Internet T1 Port	3,510.00

PARTY	CONTRACT	CURE
AT&T Local PO Box 10226 Newark, NJ 07193	TCG (Internet communications line)	318.00
Xerox 800 Long Ridge Rd. Stamford, CT 06904	Service Contract-Printers for D.C.s	25,075.38
Metro-Data 701 Minnesota Dr. Troy, MI 48083	Service Contracts for Printers & Terminals Howe & Harrisburg	0.00
Perte Systems, Ltd. 60 Renfrew Dr. Markham, Ontario L3R 0E1	Service Contract for Terminal Controllers Howe & Harrisburg	0.00
Security Private Network 1700 E. Garry Ave., Ste. 203 Santa Ana, CA 92705	DSL (Circuit to POS Lab)	0.00
SSPA Association 3875 Bay Rd., Ste. 3 Saginaw, MI 48607	Real Estate Purchase Agreement	0.00
Eagle Properties One 4024 N. Deep Lake Antioch, IL 60002	Road Widening Curb cut Construction	0.00
Pitney Bowes, Inc. One Elmcroft Rd. Stamford, CT 06926-0700	Fax Machines (3)	0.00
Sterling Logistics 4600 Lakehurst Ct. PO Box 8000 Dublin, OH 43016-2000	EDI Network	0.00
Soft Landing Systems 84 Elm St. Peterborough, NH 03458	Computer Software	0.00
Benick 2377 Main St. Glastonbury, CT 06033	Private Label (Potting soil)	0.00
Bonide 6301 Sutliff Rd. Oriskany, NY 13424	Private Label (Chemicals)	0.00
Ames True Temper 465 Railroad Ave. Camp Hill, PA 17011	Private Label (Long hand tools)	0.00

PARTY	CONTRACT	CURE
Bond Manufacturing Co. 1666 Willow Pass Rd. Bay Point, CA 94565	Private Label (Pruning Tools)	0.00
Flexon Industries One Flexon Plaza Newark, NJ 07114	Private Label (Hoses)	0.00
Midwest Quality Gloves PO Box 260 Chillicothe, MO 64601	Private Label (Gloves)	0.00
Ceridian Corporation 26100 Northwestern Hwy., Ste. 1100 Southfield, MI 48076	Payroll Services	0.00
American Express Co. World Financial Center New York, NY 10285	Credit Card Services	0.00
Discover Financial Services, Inc. f/k/a/ NOVUS Services, Inc. 2500 Lake Cook Rd. Riverwoods, IL 60015	Credit Card Services	0.00

**ASSUMED
REAL ESTATE/CURE AMOUNTS**

	Store #	Location	Cure Amount
	3	23090 Coolidge - Oak Park, MI	10,146.40
	6	14601 Eureka Rd. - Southgate, MI	5,383.84
	8	27650 Schoolcraft - Livonia, MI	4,583.33
	8	27650 Schoolcraft - Livonia, MI	6,878.85
	10	30110 Harper - St. Clair Shores, MI	2,457.75
	12	27650 Van Dyke - Warren, MI	8,224.82
	16	31590 Grand River - Farmington, MI	10,000.00
	17	3590 Washtenaw - Ann Arbor, MI	9,199.77
	19	4202 S. Dort Hwy - Flint, MI	10,279.27
	21	5919 Highland Rd - Waterford, MI	14,215.69
*	25	2450 28th St., Grand Rapids, MI	0.00
	31	5135 Monroe St. - Toledo, OH	11,471.25
	34	1941 Grand River, Okemos, MI	8,876.65
	35	5474 W. Main - Kalamazoo, MI	2,839.27
	36	2520 S. Reynolds - Toledo, OH	37,395.44
	37	250 Rand RD - Arlington Heights, IL	146,851.21
	38	817 W. Golf - Schaumburg, IL	3,375.00
	42	5620 Winnetka - New Hope, MN	10,103.40
	44	5016 County Rd - Minnetonka, MN	61,967.69
	46	Kenwood Rd - Cincinnati, OH	4,331.20
	47	10870 Hamilton Ave. - Cincinnati, OH	27,133.57
	50	497 Lake Cook Rd - Deerfield, IL	132,474.96
	51	700 E. Roosevelt Rd - Lombard, IL	16,489.97
	52	1785 River Oaks Road - Calumet City, IL	3,101.93
	53	4260W. 211th St. - Matteson, IL	34,950.76
	55	W. Harrison - Cheviot, OH	5,758.93
	56	25101 Allen Rd - Woodhaven, MI	7,191.60
	57	155 N. Maple - Ann Arbor, MI	8,101.28
	59	4261 W. Dublin Granville - Dublin, OH	52,335.03
	62	6302 E.82nd St - Castleton, IN	30,126.27
	63	8802 US 31 S. - Indianapolis, IN	1,209.58
	63	8802 US 31 S. - Indianapolis, IN	18,853.15
**	63	8802 US 31 S. - Indianapolis, IN	0.00
	66	1970 S. Robert - West St. Paul, MN	3,061.41
	67	7520 W. 159th St - Orland Park, IL	3,080.27
	68	2501 W. 75th St. - Woodridge, IL	18,208.22
	71	4231 Ebenezer Rd. - Baltimore, MD	3,310.29
	72	6503 Baltimore N. Pike - Baltimore, MD	3,958.33
	73	7928 Eastern Blvd. - Baltimore, MD	1,473.17
	74	2325 18 Mile Rd - Sterling Heights, MI	7,166.24
	75	9701 E. Washington - Indianapolis, IN	47,248.71
	76	4500 Roosevelt Rd - Hillside, IL	87,928.06
	78	330 W. Ridge Rd. - Griffith, IN	6,128.51
	79	7222 Rockville Rd. - Indianapolis, IN	5,524.55
	82	522 Ritchie Hwy - Severna Park, MD	14,358.83
**	82	522 Ritchie Hwy - Severna Park, MD	0.00
	85	325 Mall Dr., Portage, MI	7,286.00
	88	720 N. Green Bay Rd., Waukegan, IL	413.46

*Debtor as Lessor

** Debtor as Sublessor

**ASSUMED
REAL ESTATE/CURE AMOUNTS**

	Store #	Location	Cure Amount
	91	3271 S. Blvd. E. - Auburn Hills, MI	4,806.46
	95	31 Airport Square - North Wales, PA	5,523.40
	96	160 S. State St. - Springfield, PA	3,900.49
	97	Countryside Plaza - Countryside, IL	27,138.92
*	98	1950 State St., St. Charles, IL	0.00
	101	1729 Deptford Center Rd., Deptford, NJ	(7,310.19)
*	101	1729 Deptford Center Rd., Deptford, NJ	0.00
*	102	10901 Bustleton, Philadelphia, PA	0.00
*	102	10901 Bustleton, Philadelphia, PA	0.00
*	104	10550 Reistertown Rd., Owings Mills, MD	0.00
*	105	190 W. Lincoln Hwy., Exton, PA	0.00
	125	2308 Belair Rd - Fallston, MD	9,276.11
	127	2730 Dekalb Pike - Norristown, PA	1,910.19
	129	1524 E. Joppa Rd. - Towson, MD	11,029.22
**	129	1524 E. Joppa Rd. - Towson, MD	0.00
**	129	1524 E. Joppa Rd. - Towson, MD	0.00
	130	8124 Jumpers Junction - Pasadena, MD	3,080.27
	130	8124 Jumpers Junction - Pasadena, MD	547.66
**	130	8124 Jumpers Junction - Pasadena, MD	0.00
	131	201 Bowie Rd. - Laurel, MD	4,802.41
	133	Lee Hwy - Fairfax, VA	26,886.29
	134	15031 Manchester Rd., Ballwin, MO	(61,755.42)
	138	1135 S Kirkwood Blvd. - Kirkwood, MN	28,617.56
	140	195 S. Rand Rd., Lake Zurich, IL	180.47
	152	89 W. Central Ave. - Edgewater, MD	0.00
	165	7235 N. Keystone Ave. - Indianapolis, IN	6,528.44
	173	4383 Winston Ave. - Covington, KY	49,539.86
	174	14308 Burnhave Dr. - Burnsville, MN	15,409.44
	175	1845 E. Country Rd - Maplewood, MN	21,618.74
	177	1487 West Street Rd - Warminster, PA	4,497.64
	180	110 Commerce Lane - Fairview Heights, IL	19,588.32
	183	8901 Page - Overland Park, MO	38,037.89
	187	Jefferson Davis Hwy - Fredricksburg, VA	11,356.05
	192	West Union Blvd. - Bethlehem, PA	(7,801.98)
	201	1920 Dempster St. - Evanston, IL	104,895.85
	203	Easton Rd. - Wyncote, PA	4,714.35
	207	710 Chicago Drive - Holland, MI	3,024.42
	213	4902 Cortez Rd., Bradenton, FL	5,486.68
	215	2108 MacArthur - Whitehall, PA	17,373.24
	216	RT. 130 S. - Delran, NJ	4,692.47
	217	6560A W. Fullerton Ave. - Chicago, IL	61,197.80
	221	328 W. Army Trail Rd. - Bloomingdale, IL	48,019.17
	230	5210 Baltimore Pike - Clifton Heights, PA	25,462.39
	231	757 Huntingdon Pike - Huntingdon Valley, PA	5,619.64
	232	6351 Roosevelt Blvd. - Philadelphia, PA	5,498.56
	235	191 Lincoln Hwy - Fairless Hills, PA	5,378.60
	236	Paoli Pike - West Goshen, PA	9,664.52
	237	Welsh Rd. - Horsham, PA	5,932.39

*Debtor as Lessor

** Debtor as Sublessor

**ASSUMED
REAL ESTATE/CURE AMOUNTS**

	Store #	Location	Cure Amount
	241	1950 East Stroop Rd - Kettering, OH	22,936.91
	243	36624 5 Mile - Livonia, MI	14,788.95
	248	1738 Boston Post Road - Milford, CT	9,263.46
	248	1738 Boston Post Road - Milford, CT	6,834.56
	249	641 Connecticut Ave. - Norwalk, CT	50,377.94
	251	5057 Westfields Blvd. - Centreville, VA	39,695.61
	254	3660 S. Tuttle Ave. - Sarasota, FL	29,536.00
	260	7300 Haggerty Rd. - W. Bloomfield, MI	19,327.34
	261	14641 US 31 N. - Carmel, IN	10,620.52
	262	7350 153rd St. W - Apple Valley, MN	11,215.50
	264	40 Tunxis Ave. - Bloomfield, CT	5,667.77
	268	246 Main Street - Monroe, CT	13,813.30
	289	1475 Queens Drive - Woodbury, MN	22,720.05
	290	4585 Sunrise Hwy - Bohemia, NY	47,909.47
	291	1770 Middle Country Rd - Centereach, NY	27,759.56
	291	1770 Middle Country Rd - Centereach, NY	0.00
***	303	Rt. 130 - East Windsor, NJ	8,365.51
	602	Central Park Ave. - Yonkers, NY	21,311.89
	608	Westminster Rd - West Hempstead, NY	1,654.02
	608	Westminster Rd - West Hempstead, NY	2,517.86
	610	715 Dobbs Ferry Rd - White Plains, NY	26,491.03
	611	3767 Hempstead Turnpike - Levittown, NY	62,888.01
	611	3767 Hempstead Turnpike - Levittown, NY	0.00
	611	3767 Hempstead Turnpike - Levittown, NY	0.00
	612	714 Smithtown Bypass - Smithtown, NY	2,428.23
	612	714 Smithtown Bypass - Smithtown, NY	31,209.44
	615	167 E. Sunrise Hwy - Patchogue, NY	6,168.96
	616	894 Sunrise Hwy - Bay Shore, NY	16,587.13
	616	894 Sunrise Hwy - Bay Shore, NY	0.00
	617	Rocky Point Plaza - Rocky Point, NY	9,159.02
	620	705 Merrick Hwy - Copiague, NY	11,044.84
	621	1797 Dutch Broadway - Elmont, NY	2,571.40
	621	1797 Dutch Broadway - Elmont, NY	0.00
	641	3105 E. Main St. (Route 6) - Mohegan Lake, NY	2,782.43
	647	Rt 130 - Trenton, NJ	2,185.28
	991	3400 Industrial Rd., Harrisburg, PA	0.00
	1193	580 S. Kirts Blvd., Ste. 300, Troy, MI	0.00
	4478	1454 Elmhurst Rd., Elk Grove Village, IL	0.00
	9156	Alexandria, VA	4,794.29
**	9156	Alexandria, VA	0.00
		TOTAL ASSUMED CURE AMOUNT	1,984,448.51
		*** Debtors are aware of mechanics liens asserted against the	
		premises that the Debtors would be required to address in	
		conjunction with the assumption of this lease.	

*Debtor as Lessor

** Debtor as Sublessor

APPENDIX 2
Liquidation Analysis

Appendix 2

Frank's Nursery & Crafts, Inc. Liquidation Analysis

This liquidation analysis is based on the assumptions and estimates that follow. These underlying assumptions and estimates, although developed and considered reasonable by the Debtors, are inherently subject to economic and competitive uncertainties, contingencies beyond the control of the Debtors, and assumptions with respect to liquidation decisions that could change. Accordingly, there can be no assurance that the values reflected in the liquidation analysis would be realized if the Debtors were, in fact, to undergo such a liquidation, and actual results could vary materially from those shown in the analysis. Similarly, there can be no assurance that the assumptions underlying this analysis would be utilized by the Bankruptcy Court. All capitalized terms not defined in this appendix have the same meanings ascribed to them in the Debtors' Disclosure Statement and Plan of Reorganization.

This liquidation analysis assumes that:

- Commencing April 30, 2002, the Debtors' chapter 11 cases would be converted to chapter 7 cases and a chapter 7 Trustee would be appointed.
- All stores would continue to operate under normal operating procedures for the Debtors through the end of the Debtors' Period 5, 2002 (i.e. June 16, 2002). The period between May 1st and June 16th is very profitable for the Debtors and the Debtors believe the value of their estates would be enhanced by continuing to operate during this period.
- Commencing at the end of Period 5, 2002, the Debtors' remaining inventory would be liquidated. This liquidation is projected to occur over a 12-week period (the "Store Closing Period"), similar to prior store liquidations by the Debtors. Towards the end of this "Store Closing Period", all owned equipment at the stores would also be sold to the highest bidder.
- In addition, during this Store Closing Period, all existing leases would be marketed and the rights to such leases would be sold as of the end of the Store Closing Period to the highest bidder, if any. This marketing process could extend beyond the Store Closing Period for certain stores.
- All of the Debtors' remaining assets would then be liquidated during an orderly process over the subsequent 15 months (the "Wind Down Period"). During this period, all of the Debtors' remaining real estate would be liquidated and sold to the highest bidder. Any remaining leases would be sold if possible and all leases not sold would be rejected.
- The Debtors' corporate office would begin to wind down during the Store Closing Period and would continue during the Wind Down Period. Terminations would begin prior to the Store Closing Period, with approximately 22 corporate employees remaining to handle the bulk of the Store Closing process. Upon termination of the Store Closing

Period, additional employee terminations would occur, with approximately 5-7 employees remaining during the Wind Down Period to support the orderly liquidation of the Debtors.

- Total Administrative Claims estimated for the Debtors include post-petition Accounts Payable and Accrued Expenses, as well as chapter 7 costs of professionals and employees.

Variances from the Debtors' estimate of the liquidation values and recovery percentages based upon conversion from chapter 11 reorganization cases to chapter 7 liquidation cases may be caused by the following factors, among others:

- Timing of Liquidation Process – There can be no assurance that the liquidation would be completed within the timeframe specified. In addition, the timing of the start of the Store Closing Period could significantly impact overall recoveries.
- Nature of Liquidation Process – Under section 704 of the Bankruptcy Code, an appointed chapter 7 trustee must, among other duties, collect and convert the property of the estate as expeditiously as is compatible with the best interests of the parties-in-interest. The need to convert assets to cash in a short time frame may adversely impact liquidation proceeds.
- Retail Real Estate Climate – The condition of the retail real estate market during the Wind Down Period could impact proceeds realized from the sale of real estate properties and leaseholds.
- Recovery Percentages Applied to Assets – The precise recovery percentage to apply to each asset in a liquidation scenario cannot be computed based on any known empirical data. Accordingly, for purposes of this liquidation analysis, recovery percentages were based on the Debtors' estimates, which vary on an asset-by-asset basis.
- Estimated Liquidation Costs – It is possible that operating costs and expenses during the liquidation process could be greater or less than the projected amounts. Such costs are, in part, dependent on the duration of the liquidation process and the extent to which parties in interest may contest the liquidation process.
- Estimated Claims and their Priority – Claim amounts included in this analysis represent the Debtors' estimate of claims for each class, including an estimate of claims for unexpired leases and executory contracts rejected due to liquidation. The exact amount of claims that would be triggered by conversion to a chapter 7 liquidation is not known.
- Tax Liabilities – The Debtors have assumed they would not have to pay significant tax liabilities in a liquidation due to the Debtors' existing tax net operating loss carryforwards.

PROJECTED ASSETS AVAILABLE FOR DISTRIBUTION (Amounts in Thousands):

	(Unaudited) Projected Net Book Value as of end of Period 5 (6-16-02)	Projected Percentage Recovery	(Unaudited) Projected Liquidation Value
Cash and Marketable Securities	\$ 10,595	100%	\$ 10,595
Inventory	57,412	60%	34,447
Other Current Assets	5,906	50%	2,953
Real Estate, Lease Interests, Equipment	111,267	55%	61,365
Other Long-Term Assets	4,476	10%	448
Total	<u>\$189,656</u>		<u>\$109,808</u>

PROJECTED CLAIMS TO BE RECOVERED BY CLASS (Amounts in Thousands):

	Estimated Claim Amounts	Estimated Liquidation Recoveries
Total Administrative Claims	\$ 64,784	\$ 64,784
DIP Loan	14,386	14,386
Mortgagee Claims (Note 4)	24,679	22,274
Other Priority & Secured Claims	1,370	1,370
Unsecured Claims	222,405	6,994
Total	<u>\$327,624</u>	<u>\$109,808</u>

Note 1: The assumptions listed in the introduction to this Appendix 2 are integral to the results presented in this Liquidation Analysis.

Note 2: Estimated Claims under a hypothetical Chapter 7 liquidation differ from the Debtor's Estimates of Valid Claims for Plan purposes due to a variety of factors, including but not limited to, additional administrative expenses involved in the appointment of a chapter 7 trustee and professionals, additional rejection damage claims, and other claims.

Note 3: Real Estate, Lease Interests and Equipment include the potential sale of the store properties owned by the Debtors, the marketing and sale of the rights to all leases of the Debtors, the sale of all store racking and fixtures, and the sale of all other Equipment, Furniture and Fixtures owned by the Debtors.

Note 4: The recovery of Class 3 Mortgagees in a liquidation scenario is expected to range from approximately 60% to 100% of their estimated claim amount.

APPENDIX 3

Comparison of Estimated Recoveries under the Chapter 11 Plan vs. a Chapter 7 Liquidation

Appendix 3

Frank's Nursery & Crafts, Inc.
Comparison of Estimated Recoveries Under the
Chapter 11 Plan vs. a Chapter 7 Liquidation
(Amounts in Thousands)

The following table presents, by Class of Claims, the Debtors' estimation of reorganization recoveries under the Plan compared against liquidation recoveries under a hypothetical chapter 7 liquidation:

Class and Type of Claim	<u>PLAN OF REORGANIZATION</u> (per Article II.B.)		<u>LIQUIDATION</u> (per Appendix 2)	
	Debtors' Estimates of Valid Claims	Plan Recovery Percentage	Debtors' Estimates of Claims	Liquidation Recovery Percentage
1. Administrative Claims	\$ 5,000	100%	\$ 64,784	100%
2. DIP Loans	10,600	100%	14,386	100%
3. Mortgagee Claims (A)	24,700	100%	24,679	90%
4. Other Secured Claims	200	100%	156	100%
5. Priority Tax Claims	1,200	100%	1,125	100%
6. Other Priority Claims	100	100%	89	100%
7. Unsecured Claims	190,000	12.1%	222,405	3.1%

(A) - The recovery of Class 3 Mortgagees in a liquidation scenario is expected to range from approximately 60% to 100% of their estimated claim amount.

The Debtors' estimate of valid Administrative Claims under the Plan of Reorganization do not include ordinary course of business claims. The Debtors' estimate of valid Administrative Claims under the Liquidation scenario do include ordinary course of business claims.

In summary, the Debtors believe that a chapter 7 liquidation of the Debtors would result in substantial diminution in the value to be realized under the Plan by holders of Claims because of, among other factors: (a) the failure to realize the future cash flow to be generated from the Debtors' operations and maximize the value of the Debtors' assets as a going concern, (b) additional administrative expenses involved in the appointment of a chapter 7 trustee, attorneys, accountants and other professionals to assist in the chapter 7 liquidation of the estate, (c) severance and other employee termination costs, (d) additional expenses and claims, and (e) sale of real estate properties in an unfavorable environment. Consequently, the Debtors believe that the Plan, which provides for the continuation of the Debtors' business, would provide a substantially greater return to holders of Allowed Claims than they would receive in a liquidation.

APPENDIX 4

Projected Financial Information

(Fiscal Years ending January 26, 2003, January 25, 2004, and January 23, 2005)

Appendix 4

Frank's Nursery & Crafts, Inc. Projected Financial Information

52-week fiscal years ending January 26, 2003, January 25, 2004 and January 23, 2005

A. Introduction

As a condition to confirmation of a plan of reorganization, section 1129 of the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or need for further financial reorganization of the debtor. In connection with the development of the Plan, and to help determine whether the Plan satisfies this feasibility standard, the Debtors have analyzed the ability of the Reorganized Debtors to meet future obligations under the Plan.

In that regard, the Debtors prepared the projected financial information (the "Projections") provided herein to show the results of the Debtors' operations following consummation of the Plan. The Projections are based on the assumptions discussed below.

All capitalized terms not defined in this appendix have the same meaning ascribed to them in the annexed Disclosure Statement and Plan.

The Projections have been prepared on the basis of generally accepted accounting principles consistent with those currently adopted by the Debtors in the preparation of their historical financial statements. A summary of those accounting policies is included in the Frank's Nursery & Crafts, Inc. audited financial statements. The Post-Consummation Projections are not comparable in certain material respects to the Debtors' historical financial statements primarily due to the adoption of fresh start accounting.

The Projections present the Debtors' view as to the Reorganized Debtors' expected financial position, results of operations and cash flows for 52-week fiscal years ending January 26, 2003, January 25, 2004 and January 23, 2005. Among the underlying assumptions is that certain management action plans, including revenue enhancement, cost reduction, and qualitative improvements, will be executed in a timely fashion and produce anticipated financial and operating results included in the Projections. Accordingly, the Projections reflect the Debtors' judgment, as of the date of this Disclosure Statement, of expected future operating conditions. All estimates and assumptions incorporated into the Projections were developed by the Debtors and, in certain instances, reflect anticipated improvement in operating results. The assumptions disclosed herein are those the Debtors believe are significant to the Projections.

The Post-Consummation Projections reflect the effect of consummation of the Plan and projected adjustments from "fresh start" accounting. Such Projections are based on a number of estimates and assumptions that, although developed and considered reasonable by the Debtors, are inherently subject to significant economic and competitive uncertainties and contingencies beyond the Debtors' control. Accordingly, there can be no assurances that the projected results will be realized, and actual results may vary materially from those projected. If actual results are

lower than those shown or if the assumptions used in formulating the Projections are not realized, the Reorganized Debtors' operating results and cash flows, and hence their ability to perform under the Plan, may be materially and adversely affected.

The Debtors do not intend to revise the Projections to reflect circumstances existing after the date of this Disclosure Statement or to reflect the occurrence of unanticipated events. The Debtors assume no responsibility to advise recipients of the Projections about any subsequent changes in future periods. The Debtors do not generally publish their business plans and strategies or make external projections or forecasts of their anticipated financial positions or results of operations. Accordingly, the Debtors do not anticipate that they will, and disclaim any obligation to, furnish updated business plans or projections to holders of Claims prior to or after the Effective Date, to otherwise make such information public in the future.

The Projections were not prepared with the intent toward compliance with the guidelines established by the American Institute of Certified Public Accountants or the Financial Accounting Standards Board. Further, the Projections have not been audited or reviewed by the Debtors' independent certified public accountants. While presented with numerical specificity, the Projections are based upon a variety of assumptions which may not be realized, and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Debtors' control. Consequently, the Projections should not be regarded as a representation or warranty by the Debtors, or any other person, that the Projections will be realized. Actual results may vary materially from those presented in the Projections.

While the Debtors believe the assumptions underlying the projected financial statements for the projected periods, when considered on an overall basis, are reasonable in light of current circumstances and expectations, no assurances can be given that the Projections will be realized. The underlying assumptions should be considered by creditors in determining whether to accept or reject the Plan.

B. General Assumptions – 3 Year Projections

The following are certain significant general assumptions made by the Debtors in developing the Projections:

1. There will be no significant changes in the Debtors' primary markets, including demographics and competition.
2. The Projections assume an increase from the prior years' comparable store sales of 5.2% in fiscal 2002 and 2003 and 6% in 2004. Sales for each product line were projected based on historical results and anticipated merchandising and advertising plans. Primary sales increases are expected in Lawn & Garden products, Garden Décor items, Christmas products and Home Décor items. More directed product and price advertising, improved product presentation, new merchandise, and other initiatives are expected to produce this sales increase.

3. Margins are expected to remain relatively flat during the Projection period. Margins are expected to recover from 2001 levels which were unusually low due to extensive sales both to generate cash and to clear out slow-moving merchandise, but are still expected to remain below historical levels prior to 2001 due to more directed promotional selling.
4. Store Operations Expenses, SG&A Expenses and Distribution Expenses are based on historical results and percentages, adjusted for the anticipated effect of current management actions and plans.
5. There will be no interruptions in supply of products and services to the Debtor.
6. The Debtors will be able to attract and/or retain key personnel.
7. The Debtors will emerge from Chapter 11 on or about May 19, 2002 (although an earlier date is sought). Accordingly, 2002 Projections include 4 fiscal periods with the Debtors' in chapter 11 and 9 fiscal periods with the Debtors' out of chapter 11.
8. Exit Financing similar to that described in the Disclosure Statement will be obtained.
9. The projections assume the opening of 6 new stores at the start of Period 3, 2004. These stores are assumed to be build to suit leases requiring capital expenditures of \$700,000 per store primarily for equipment, fixtures, and signs.
10. Restructuring expenses in 2002 include professional fees, retention payments under the Debtors' court-approved retention plan, and other costs.
11. Property, Plant and Equipment is projected to be written down by approximately \$58 Million as part of the application of Fresh Start Accounting. This will create approximately a 56% reduction in depreciation expense from pre-emergence levels.

C. Plan Consummation Assumptions and Fresh Start Accounting

1. On the Plan's Effective Date, it is assumed that the Reorganized Debtors will utilize their cash on hand and proceeds from Exit Financing to pay allowed administrative and priority claims and payoff the DIP Loan.
2. The Debtors assume Plan confirmation and consummation will be accomplished according to the terms of the Plan as described in the prefixed Disclosure Statement.
3. "Fresh Start" accounting adjustments have been made to reflect the estimated adjustments necessary to adopt fresh start reporting in accordance with Statement of Position 90-7 issued by the American Institute of Certified Public Accountants, entitled "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." Fresh start accounting requires that the reorganization value of the Debtors be allocated to the Debtors' assets in conformity with FASB Standard 141, "Business Combinations," for

transactions reported on the basis of the purchase method. Any excess of the fair value of identifiable assets over the reorganization value will be reduced pro rata over long-term assets. The reorganization value used in preparing The Projected Consolidated Opening Balance Sheet of the Reorganized Debtors assumes a reorganization value of \$90,000,000 as of May 19, 2002. This reorganization value is subject to adjustment to reflect any fluctuation in financial projections on which the valuations are based. The allocation of reorganization value to individual assets and liabilities is subject to change after the Consummation Date and could result in material differences to the allocated values estimated in the Projections.

D. Projected Financial Statements

The Reorganized Debtors' Projected Financial Statements for the 52-week fiscal years ending January 26, 2003, January 25, 2004, and January 23, 2005 present the projected financial position and results from operations of the Reorganized Debtors, after giving effect to the confirmation and consummation of the transactions contemplated by the Plan, as of the end of each fiscal year. The following Projections should only be read in conjunction with the assumptions, qualifications and explanations set forth within this Disclosure Statement.

Frank's Nursery & Crafts, Inc.
Projected Income Statement (in 000's)

	For the 52 Weeks Ending		
	<u>1/26/03</u>	<u>1/25/04</u>	<u>1/23/05</u>
Sales	\$ 351,853	\$ 370,166	\$ 405,210
Cost Of Goods Sold	<u>199,381</u>	<u>209,290</u>	<u>228,673</u>
Gross Margin	152,472	160,876	176,537
Store Operations Expenses	107,553	108,195	116,603
SG&A Expenses	36,962	37,271	38,101
Distribution Expenses	<u>6,068</u>	<u>6,146</u>	<u>6,366</u>
Operating Income	1,889	9,264	15,467
Interest Expense	7,932	7,399	7,164
Restructuring Expenses	<u>4,850</u>	<u>-</u>	<u>-</u>
Net Income (Loss)	<u>\$ (10,893)</u>	<u>\$ 1,865</u>	<u>\$ 8,303</u>
 EBITDA	 <u>\$ 11,722</u>	 <u>\$ 16,453</u>	 <u>\$ 23,300</u>

Frank's Nursery & Crafts, Inc.
Projected Balance Sheet (in 000's)

	As of Fiscal Year Ending		
	<u>1/26/03</u>	<u>1/25/04</u>	<u>1/23/05</u>
Cash and Cash Equivalents	\$ 4,422	\$ 4,492	\$ 4,618
Marketable Securities	395	-	-
Inventory, Net	39,999	39,999	41,427
Other Current Assets	<u>9,055</u>	<u>5,717</u>	<u>6,054</u>
Total Current Assets	53,871	50,208	52,099
Property, Plant and Equipment, Net	43,610	45,621	48,788
Other Assets & Deferred Charges	<u>4,095</u>	<u>3,480</u>	<u>2,865</u>
Total Assets	<u>\$ 101,576</u>	<u>\$ 99,309</u>	<u>\$ 103,752</u>
Accounts Payable	\$ 8,493	\$ 9,048	\$ 9,250
Accrued Expenses	17,698	18,406	19,724
Revolving Loan	15,065	12,873	9,273
Current Portion of Long-Term Debt	<u>1,790</u>	<u>1,780</u>	<u>1,822</u>
Total Current Liabilities	43,046	42,107	40,069
Long-Term Debt – Mortgages	20,939	18,806	18,044
Term Loan	20,000	20,000	20,000
Long-Term Debt – Capital Leases	3,357	2,297	1,237
Other Long-Term Liabilities	<u>3,933</u>	<u>3,933</u>	<u>3,933</u>
Total Liabilities	<u>91,275</u>	<u>87,143</u>	<u>83,283</u>
Stock and Paid-in-Capital	23,000	23,000	23,000
Retained Earnings	<u>(12,699)</u>	<u>(10,834)</u>	<u>(2,531)</u>
Total Equity	<u>10,301</u>	<u>12,166</u>	<u>20,469</u>
Total Liabilities and Equity	<u>\$ 101,576</u>	<u>\$ 99,309</u>	<u>\$ 103,752</u>

Frank's Nursery & Crafts, Inc.
Projected Cash Flow Statement (in 000's)

	<u>For the 52 Weeks Ending</u>		
	<u>1/26/03</u>	<u>1/25/04</u>	<u>1/23/05</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ (10,893)	\$ 1,865	\$ 8,303
Non-Cash Charges (Credits):			
Depreciation	9,833	7,189	7,833
Debt Cost Amortization	1,108	615	615
Other	(800)	-	-
Changes in Current Assets and Current Liabilities:			
Marketable Securities	663	395	
Inventory	1,110	-	(1,428)
Other Current Assets	137	(174)	(337)
Accounts Payable	37	555	202
Accrued Expenses	(682)	708	1,318
Net Cash from Operations	<u>513</u>	<u>11,153</u>	<u>16,506</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Capital Expenditures	(5,000)	(9,200)	(11,000)
Sale of Real Estate	<u>7,023</u>	<u>3,512</u>	<u>-</u>
Net Cash from Investing	<u>2,023</u>	<u>(5,688)</u>	<u>(11,000)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Net Revolver Activity	(17,680)	(2,192)	(3,600)
Proceeds from Term Loan	20,000	-	-
Payment of Financing Fees	(1,000)	-	-
Mortgage Payments	(3,374)	(2,143)	(720)
Capital Lease Obligation Payments	<u>(1,060)</u>	<u>(1,060)</u>	<u>(1,060)</u>
Net Cash from Financing Activities	<u>(3,114)</u>	<u>(5,395)</u>	<u>(5,380)</u>
Net Change in Cash	(578)	70	126
Beginning Cash	<u>5,000</u>	<u>4,422</u>	<u>4,492</u>
Ending Cash	<u>\$ 4,422</u>	<u>\$ 4,492</u>	<u>\$ 4,618</u>

APPENDIX 5

Lump Sum Distribution Commitment Letter

KIMCO CAPITAL CORP.
3333 New Hyde Park Road
New Hyde Park, NY 11042

March 11, 2002

TO: CLASS 7 CREDITORS

Re: Offer to Purchase for 10 Cents on the Dollar All Class 7 Unsecured
Claims In Accordance With The Joint Plan of Reorganization of
Frank's Nursery & Crafts, Inc., et al.

Dear Sirs:

Offer To Purchase

We hereby agree that, as more fully described in Section A.7. of Article IV of the Disclosure Statement accompanying the Debtors' joint plan of reorganization (the "Plan of Reorganization"), we will purchase up to \$5 million in the aggregate (or, in our sole and absolute discretion, such other amount in excess of \$5 million as we may elect) of the allowed general unsecured claims of the holders of Allowed Class 7 Claims relating to the Company as promptly as practicable following the entry of an order confirming the Plan of Reorganization but prior to the Effective Date.* We agree to pay \$0.10 per dollar amount of Allowed Claim to those holders of Class 7 Claims who make a Lump Sum Election and assign their Allowed Class 7 Claims to us without recourse or warranty, by either (a) making such an election on their ballot for voting on the Plan of Reorganization or (b) being deemed to have made such an election pursuant to paragraph 3.07(b) of the Plan of Reorganization. To the extent that \$5 million is insufficient to satisfy all Allowed Class 7 Claims subject to the Lump Sum Election and we do not elect to satisfy all remaining Allowed Class 7 Claims, we will satisfy such remaining Allowed Claims in the order of lowest to highest amount of the Claims, with the lowest amount being paid first.

On or before the effective date of the Plan of Reorganization but after the approval of the Disclosure Statement, we will, at our option, either (i) post a \$5 million letter of credit to secure our commitment to purchase Allowed Class 7 Claims or (ii) deposit \$5 million into an escrow account to fund distributions to those holders of Allowed Class 7 Claims who have made the Lump Sum Election.

* All capitalized terms not defined herein shall have the meanings set forth in the Plan of Reorganization.

Conditions To Purchase

It is a condition of our obligations in this letter that the Plan of Reorganization be confirmed by an order of the U.S. Bankruptcy Court for the District of Maryland (Baltimore Division) and such order must be a final order and not be subject to any stay or injunction.

This commitment to purchase Allowed Claims pursuant to the terms of the Plan of Reorganization is available only in connection with the Plan of Reorganization and not any competing plans of reorganization that may be filed.

Disclosure Of Purchaser's Relationships

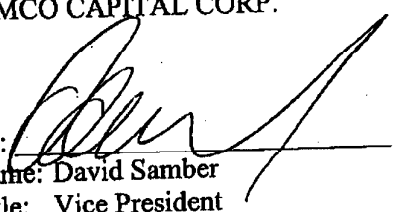
Please note that Kimco Select Investments, an affiliate of ours, is currently a member of the Official Committee of Unsecured Creditors in the Frank's Nursery bankruptcy case and another affiliate of ours is making a \$30 million secured real estate loan to the Company as part of its exit financing, and in such capacity may have had access during the bankruptcy case to non-public information. Please also note that we make no representation or warranty relating to (i) the value of the stock of the reorganized Frank's Nursery (it may be more or less than the \$.10 per dollar offered herein) or (ii) the liquidity of such stock and your ability to sell such stock in the future.

How To Accept The Offer

If you wish to accept the offer and to sell your claim, then check the boxes on the Ballot accompanying the Plan so that your Ballot accepts the Plan and elects the lump sum payout option.

Should you have any questions, please call Neil Herman at (212) 309-6669.

Very Truly Yours,
KIMCO CAPITAL CORP.

By: 
Name: David Samber
Title: Vice President